



Meeting: **Corporate Governance Committee**

Date/Time: **Monday, 20 May 2024 at 10.00 am**

Location: **Sparkenhoe Committee Room, County Hall, Glenfield**

Contact: **Mrs J. Twomey (tel: 0116 305 2583)**

Email: **joanne.twomey@leics.gov.uk**

Membership

Mr. T. Barkley CC (Chairman)

Mr. N. D. Bannister CC	Grimes
Mr. D. C. Bill MBE CC	Maxfield
Mr. G. A. Boulter CC	Mr. J. T. Orson CC
Mr. B. Champion CC	Mr. T. J. Richardson CC

AGENDA SUPPLEMENT

<u>Item</u>	<u>Report by</u>	
9. External Audit of the 2022/23 Statement of Accounts, Annual Governance Statement and Pension Fund Accounts - Updated.	Director of Corporate Resources	(Pages 13 - 14)

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CORPORATE GOVERNANCE COMMITTEE – 20 MAY 2024**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****EXTERNAL AUDIT OF THE 2022/23 STATEMENT OF ACCOUNTS,
ANNUAL GOVERNANCE STATEMENT AND PENSION FUND ACCOUNTS
- UPDATED****Purpose**

1. The purpose of this report is to present an updated Audit Findings Report from the external audit of the 2022/23 financial statements and to seek the Committee's approval of the draft letters of representation.
2. A supplementary report setting out the key findings is currently being prepared and this will be circulated to members and published on the County Council's website as soon as possible.

Background

3. The committee received an interim Audit Findings report at its last meeting on 26 January 2024. The report explained that the external audit had been substantially completed with the exception of Property, Plant and Equipment (PPE) where there were delays in providing the evidence required to support the valuations used in the Council's accounts.
4. The Council uses an external firm of valuers to undertake the valuations. The original valuations were provided on time and were used in the Council's draft accounts reported in June 2023. However, there have been delays during the audit in obtaining the required level of evidence to support the calculations for the sample requested by the auditor. Changes in staff at the external valuation firm has meant that there have been delays and valuations having had to be reperformed, including corrections to prior year valuations requiring a substantial amount of rework to the accounts. A new firm of external valuers have been contracted for the 2023/24 valuations.
5. This work has now been completed and the updated draft Statement of Accounts is currently being reviewed by the external auditor.

Recommendation

6. The Committee is asked to note the External Audit of the Financial Statement 2022-23 and consider issues raised in the auditor's Audit Findings Reports and approve the draft letters of representation.

Equality and Human Rights Implications

7. None.

Circulation Under the Local Issues Alert Procedure

8. None.

Background Papers

9. Report to the Corporate Governance Committee: External Audit of the 2022/23 Statement of Accounts, Annual Governance Statement and Pension Fund Accounts
<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=7410&Ver=4>

Appendices

None

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CORPORATE GOVERNANCE COMMITTEE – 20 MAY 2024**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****EXTERNAL AUDIT OF THE 2022/23 STATEMENT OF ACCOUNTS,
ANNUAL GOVERNANCE STATEMENT AND PENSION FUND ACCOUNTS
- UPDATED****Purpose**

1. The purpose of this report is to present an updated Audit Findings Report from the external audit of the 2022/23 financial statements and to seek the Committee's approval of the letters of representation.

Background

2. The committee received an interim Audit Findings Report (AFR) for Leicestershire County Council at its last meeting on 26 January 2024.
3. The report explained that the external audit had been substantially completed with the exception of Property, Plant and Equipment (PPE) where there were delays in providing the evidence required to support the valuations used in the Council's accounts. These issues have now been resolved.
4. The report to the Committee in January also explained that the final AFR for the Pension Fund audit was not complete at the time of the meeting and that it would be reported alongside the final AFR for the County Council.
5. Grant Thornton UK LLP, the County Council's external auditor, is required to communicate the results of the audit to those charged with governance prior to certifying the financial statements. The draft 2022/23 Statement of Accounts, Annual Governance Statement (AGS) and Pension Fund Accounts can be viewed on the Council's website via the following link:

<https://www.leicestershire.gov.uk/sites/default/files/2023-07/LCC-Statement-of-Accounts-2022-2023.pdf>
6. Copies of the following reports are attached as appendices; Leicestershire County Council (Updated) AFR – Appendix A, and Leicestershire County Council Pension Fund AFR – Appendix B.

7. Copies of the letters of representation for the County Council and its Pension Fund are attached as Appendices C and D for member consideration.
8. The financial statements also include the Annual Governance Statement (AGS). Since the draft AGS in June 2022, the AGS has been updated for the latest position on the internal audit of East Midlands Shared Services (EMSS), the Government's decision to end funding to the Leicester and Leicestershire Enterprise Partnership (LLEP) and the funding arrangements of the East Midlands Development Company (DevCo). An updated copy of the AGS is attached as Appendix E.
9. Mark Stocks, Key Audit Partner from Grant Thornton UK LLP, responsible for the audit will attend the Committee meeting to communicate any significant findings and answer any questions.
10. The external auditor has reviewed the financial statements and anticipates issuing an unqualified opinion. The auditor will provide a verbal update at the meeting.
11. The updated financial statements will be reported to the Council's Constitution Committee on the 24 May 2024 for signing. The external auditor will then sign off the accounts.

Updated Audit Findings Report – Leicestershire County Council 2022/23

12. The key changes to the AFR that were previously provided to the committee in January are highlighted in yellow within the report. These are:

Asset Valuations

13. The Council uses an external firm of valuers to undertake the valuations. The original valuations were provided on time and were used in the Council's draft accounts reported in June 2023. However, there were delays during the audit in obtaining the required level of evidence to support the calculations for the sample requested by the auditor. Changes in staff at the external valuation firm has meant that there have been delays and valuations having had to be reperformed, including corrections to prior year valuations. A number of updated valuation reports were required over a number of months to manage the changes required. This has resulted in a substantial amount of rework to the draft accounts. A new firm of external valuers have been contracted for the 2023/24 valuations.
14. The main issue was due to non-school building areas being incorrectly valued at the same rate as the building areas – which attract a higher valuation. Further investigation identified that the overstatement originated from 2019/20. All school valuations since 2019/20 have now been updated. Separately, the Council has also reviewed assets held at historic cost. This has identified that some of these assets were no longer owned by the Council and needed removing from the fixed asset register and some needed to be revalued down.
15. As a result of the updates, there was a reduction of £40.1m needed to the carrying value of land and buildings included within the balance sheet as at 31st March 2022

and a further £9m reduction as at 31 March 2023. The accounts have been updated for these amendments.

16. It should be noted that these corrections do not have any impact on the Council's general fund balance and are offset within the unusable reserves of the Council via the capital adjustment account and the revaluation reserve.

Financial Instruments - Note 20 to the Accounts

17. The note to the accounts incorrectly included payments in advance and grants received in advance within the amounts shown as financial assets and financial liabilities respectively. These were also incorrect in previous years and have now been corrected. This only affects the disclosure note and no further changes were required to the main statements.

Audit Fees

18. The auditor has confirmed their final audit fee for 2022/23 as £179,000 compared with the proposed fee of £128,815 in the audit plan. The increase in the fee is due mainly to the additional work required for the property asset valuation corrections necessary to the accounts. The Council will be seeking some contribution to these costs from the external valuer.

Audit Findings Report – Leicestershire County Council Pension Fund 2022/23

19. The auditor has completed their work and no material adjustments were required to the accounts.
20. During the audit there was one non-material adjustment identified totalling £3.8m relating to the valuation of hard to value pooled assets, which was not available when the accounts needed to be prepared. For these assets estimates have to be made as the valuations are not known for many months until after the year end date. The amount was not material overall and this was not adjusted for in the accounts. This was agreed with the external auditor.
21. There were two control issues reported relating to:
 - Journals below £20,000 auto approved. Access is limited to the central finance team only, but the limit will be reviewed, including Internal Audit being asked to review a sample as part of their annual assurance work.
 - Investment manager internal control reports and bridging letters – provide assurance on controls in place. Two investment reports were not received by the Council. The Council will continue attempts to obtain the required reports.
22. The proposed audit fees for the pension fund have been increased slightly from £36,793 to £38,193 due mainly to work required to review the Triennial pension fund valuation. A separate additional fee of £19,200 is made for work relating to the IAS19 accounting assurance letters undertaken by the Pension Fund's auditor on behalf of the main admitted bodies of the Fund. These charges are fully recharged to the respective admitted bodies.

Recommendation

23. The Committee is asked to note the External Audit of the financial statements 2022-23 and consider issues raised in the auditor's Audit Findings Reports and approve the draft letters of representation.

Equality and Human Rights Implications

24. None.

Circulation Under the Local Issues Alert Procedure

25. None.

Background Papers

Report to the Corporate Governance Committee 26 January 2024: External Audit of the 2022/23 Statement of Accounts, Annual Governance Statement and Pension Fund Accounts

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=7410&Ver=4>

Report to the Corporate Governance Committee 26 May 2023: External Audit Plan 2022/23

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=7129&Ver=4>

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Appendices

- Appendix A – Audit Findings Report for Leicestershire County Council 22/23
- Appendix B – Audit Findings Report for Leicestershire County Council Pension Fund 22/23
- Appendix C - Letter of Representation (County Council)
- Appendix D - Letter of Representation (Pension Fund)
- Appendix E – Updated Annual Governance Statement

Audit Findings for Leicestershire County Council

Year ended 31 March 2023

20th May 2024



Contents



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This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Corporate Governance

Mark Stocks
For Grant Thornton UK LLP
Date: 15 May 2024

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Leicestershire County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- The Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative report) is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

An Interim Audit Findings Report was presented to the Audit Committee in January 2024. Key changes to this report are highlighted in yellow.

The main area of outstanding work as reported in January 2024 related to the evidence to support Land and Building valuations within the Council's financial statements. We provided a detailed list of evidence required for each asset selected for testing at the beginning of October 2023. The final information and valuation reports were provided in April 2024 and we have now concluded our work in this area.

Our audit work has been conducted remotely throughout the audit. Our work is substantially complete subject to the following outstanding matters;

- Receipt of management representation letter; and
- Completion of procedures regarding subsequent events
- Review of final version of financial statements, including WGA procedures
- Final Manager and Engagement Lead review of the above

Our detailed findings are summarised on pages 6 to 25.

We have identified a number of issues in our 2022/23 audit which have been adjusted in the Council's financial statements. This includes three material misstatements and three non-material misstatements in the financial statements. This impact of these is summarised below:

- Prior period adjustment – a number of issues have been identified in relation to the Council's Land and Building valuations. This has triggered a Prior period adjustment. In summary the Council's land and building values as at 31st March 2022 are £40.1m lower than those reported in the draft financial statements. A detailed Prior Period Adjustment disclosure (note 8) has been included in the Council's updated financial statements
- Prior Period adjustment – Grants received in advance have been incorrectly included within financial instrument disclosures. This is a material disclosure amendment. A detailed Prior Period Adjustment disclosure (note 8) has been included in the Council's updated financial statements
- Increase in the Council's Net Pension Liability of £14.3m due to incorrect offsetting of pension arrangements and subsequent application of IFRIC 14.
- Other Land and Buildings – Reduction in valuation of £9m following the Council obtaining updated valuations in 22/23 and other accounting issues relating to Land and Building valuations
- Revaluation reserve difference of £1.8m compared to the general ledger – this was identified by the Council's Finance Team.

The above adjustments do not impact on the Council's general fund balance.

Further issues identified for which adjustments have not been made to the financial statements are:

- Movement on valuations on assets not revalued in 2022/23 – resulting in an estimated understatement of asset values of £1.4m.
- Overstatement of income due to incorrect accruals accounting being applied to rental income invoices - £1.358m. This adjustment would impact on the Council's general fund balance.
- A number of disclosure amendments have not been made– relevant recommendations have been made to ensure these are addressed in 23/24

1. Headlines

Financial statements – continued

Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our financial statements audit report opinion will be unmodified. We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are satisfied this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

We have nothing to report in relation to statutory powers or other duties.

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have completed our VFM work, which is summarised on page 25, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to be able to certify the completion of the audit when we give our audit opinion.

Significant matters

The valuation process has been problematic throughout the audit with the final valuation report being provided to the council in April 2024. This has incurred significant additional resource for the audit team and the Council's own staff. The impact on audit fee is included within Appendix E. 14 versions of valuation reports have been received throughout the audit with a number of material amendments to the financial statements.

We did not encounter any other significant difficulties or identify any other significant matters arising during our audit.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/about-time/)

We would like to thank everyone at the Council for their support in working with us throughout the audit ensuring open line of communication and collaborating to reduce the risk of delays and for maintaining a positive working relationship to address any issues.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. We have not identified any similar risks at the Council.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be presented to the Corporate Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have made one change to our audit approach to that reported in our Audit Plan. Following receipt of the draft financial statements and initial review of Net Pension Fund Liability offsetting it was identified additional procedures regarding IFRIC 14 were required. Full detail is provided on pages 13 and 14.

There have been no further changes to our audit plan, as communicated to you on 26th May 2023.

Conclusion

Our work is substantially complete subject to the following outstanding matters;

- Receipt of management representation letter;
- Final addendum valuation report from the Council;
- Completion of procedures regarding subsequent events
- Review of final version of financial statements , including WGA procedures
- Final Manager and Engagement Lead review of the above

Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion .

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. The Council's central finance team and key staff members have been instrumental in supporting the wider audit, especially where requests require the involvement of other departments/external experts.

The 2022/23 audit has progressed at a faster pace than prior years but it has still taken longer than expected. We are aware this extended through the budget setting window of the Council which we appreciate is a challenging time and puts competing demands on finance staff. We have encountered some delays in relation to the quality of initial evidence provided to support income and expenditure transactions. This was escalated to senior finance team members who responded promptly to the issues raised.

The Land and Building valuation process has been problematic throughout the audit with the final valuation report being provided to the council in April 2024 . This has incurred significant additional resource for the audit team and the Council's own staff.

Moving forward, we will review, in detail, the 2022/23 audit process alongside the Council and agree how the 2023/24 audit timeline and procedures can be amended to ensure the audit is completed as efficiently as possible.

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan but we have set a specific lower materiality level for your remuneration disclosures.

We set out in this table our determination of materiality for Leicestershire County Council.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	£14.5m	We determined materiality for the audit of the Council's financial statements as a whole to be £14.5m, which equates to approximately 1.4% of the Council's gross operating expenses. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.
Performance materiality	£9.8m	<p>We use a different level of materiality, performance materiality, to drive the extent of our testing. Our consideration of performance materiality is based upon a number of factors:</p> <ul style="list-style-type: none"> • We have not historically identified significant control deficiencies as a result of our audit work • We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment • There were a number of misstatements identified as part of the 2021/22 audit in relation to property, plant and equipment. • There were recommendations raised in 2021/22 in relation to the Council's journals control environment. • Senior management and some key reporting personnel in the finance function have changed from the prior year audit <p>On this basis we have maintained the performance materiality threshold at 67.5%.</p>
Trivial matters	£700k	We determined the threshold at which we will communicate misstatements to the Corporate Governance Committee to be £700k.
Materiality for remuneration disclosures	£100k	In accordance with ISA 320 we have considered the need to set lower levels of materiality for sensitive balances, transactions or disclosures in the accounts. We consider the disclosures of senior officer remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts. We have determined a lower materiality for senior officer remuneration disclosures linked to the total value of the disclosures set at £100k with a lower performance materiality set at £75k.
Performance materiality for remuneration disclosures	£75k	

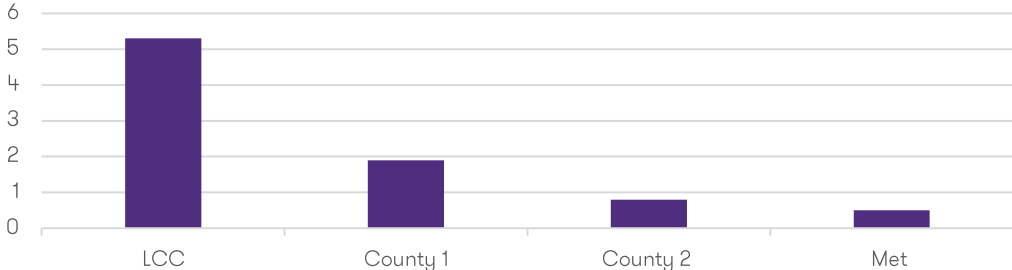
2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.	<p>We completed the following audit work:</p> <ul style="list-style-type: none"> evaluated the design and implementation of management controls over journals analysed the journals listing and determined the criteria for selecting high risk unusual journals identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>We have completed targeted testing of a number of journals deemed to be ‘unusual’ using an overarching set of risk criteria. Our sample of journals tested has not identified any instances of management override.</p> <p>General Ledger coding structure and balances</p> <p>When undertaking our risk assessment work in relation to journal entries we have, as noted in the prior year, identified that the Council’s ledger structure and processing gives rise to a significant number of journal postings. A number of separate codes are used to manage the debit and credit items separately for a particular item as well as using journals to reallocate costs and income between cost centres. This results in a significant number of debits on account codes which are offset by a significant number of credits on other account codes. The separation of debit and credit transactions for the same GL code to the extent used by the Council is unusual.</p> <p>The size and volume of data being processed at the Council therefore results in additional audit time and procedures to understand the data and cleanse the data appropriately in order to test balances in the most efficient way. Recommendations have been raised to ensure further progress is made to reduce the level of transactions recorded and that account codes are managed and cleansed appropriately.</p> <p>A fee increase of £7,500 was reported in the audit plan relating to this additional work.</p> <p>It is difficult to provide directly comparable benchmarking information due to the differing ledger structures and services delivered across our client base. We have, however, provided some high level benchmarking overleaf which illustrates the volume of transactions processed across three organisations of similar size to Leicestershire County Council.</p> <p>Our analysis identified of the Council’s data has identified 20,371 full code combinations which have been posted to less than monthly. A reporting cost centre can use an analysis code to separate their cost centre down further and then for each they will use a subjective code to identify the type of spend. Together the codes form a ‘code combination’. We have raised a recommendation regarding this point within</p>

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary										
<p>Management override of controls (continued)</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<div><div>Number of transaction lines posted in year (million)</div><table border="1"><thead><tr><th>Entity</th><th>Number of transaction lines posted in year (million)</th></tr></thead><tbody><tr><td>LCC</td><td>5.2</td></tr><tr><td>County 1</td><td>2.0</td></tr><tr><td>County 2</td><td>0.8</td></tr><tr><td>Met</td><td>0.4</td></tr></tbody></table></div> <p>Mass migration journals</p> <p>In addition to the relatively large number of separate codes and journals processed to reallocate costs and income between cost centre we also note , as in previous years, that the Council undertakes periodic (usually monthly) journal postings in which the Council transfers the totals for each department to the general fund. In addition, allocations are also used to allocate balances on Reserves, Provisions and other technical control accounts, (used to show the in year movements on those accounts), to their balance sheet codes. These postings are undertaken to balance the balance sheet on a regular basis in order to produce its monthly accounts. The extent of these postings not only increases the volume of transactions but also the risk that there may be errors in amounts and account codes as these are copied from system reports by the corporate finance team.</p> <p>Recommendations have been raised to ensure further progress is made to reduce the level and appropriateness of these transactions.</p> <p>Journals Authorisation</p> <p>We have completed audit testing around authorisation and as in the prior year we have identified that all journals below £20,000 do not require authorisation. We have noted that all such journals are restricted to being posted by specific finance officers in the Central Technical Accounting Team which has been confirmed by our testing. The total value of such journals is £4.583m and therefore the risk is not material.</p> <p>Our journal audit work is complete.</p>	Entity	Number of transaction lines posted in year (million)	LCC	5.2	County 1	2.0	County 2	0.8	Met	0.4
Entity	Number of transaction lines posted in year (million)										
LCC	5.2										
County 1	2.0										
County 2	0.8										
Met	0.4										

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Valuation of land and buildings

Revaluation of property, plant and equipment should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period.

Valuations are significant estimates made by management. The net book value of land and buildings held by the Council at 31 March 2023 was £453.4m (as per draft accounts)

In addition to this, material adjusted misstatements were reported in relation to the Valuation of land and buildings within the 2021/22 financial statements.

We have identified the valuation of land and buildings and investment property as a significant risk

Commentary

The valuation process has been problematic throughout the audit with final asset valuation reports being provided to the Council in April 2024. This has incurred significant additional resource for the audit team and the Council's own staff. The impact on audit fee is included within Appendix E. 14 versions of valuation reports have been received throughout the audit with a number of material amendments to the financial statements.

Our work in relation to the Council's valuation of Land and Buildings is now complete. A number of errors have been identified, this has also necessitated a Prior Period Adjustment. In summary:

Land and buildings per draft financial statements	£453.4m
Prior period adjustment	(£40.1m) – further detail provided below
Updated valuations relating to 22/23 only	(£9.2m) – further detail provided below
Land and buildings per final version	£404.1m

Prior period adjustment - £40.1m

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Our testing of land and buildings valuations identified a number of issues, the most significant being in relation to Schools Land and Buildings. This has resulted in a Prior Period Adjustment of £40.1m, reducing the Council's asset valuation as at 1 April 2022 by £40.1m with opposite entry impacting on the Councils revaluation reserve. This does not have any impact on the Council's General Fund Balance. Further detail is provided below.

Our sample testing of 22/23 Schools land identified an issue in valuation. The value applied was based on all schools land being developable. This methodology is incorrect and schools land should be valued by splitting the site between developed land – where the building stands and therefore has planning permission and so the value is higher, and undeveloped land- such as school fields where planning permissions are not in place. All school land valuations since 2019/20 have been revised and adjusted within the Council's financial statements as part of the Prior Period Adjustment

Other valuation adjustments - £9.2m

A number of valuation issues have been identified throughout the audit. In addition to the prior period adjustment described above there are adjustment which have been made in 22/23 only. These include:

- Our sample testing of 22/23 schools buildings involves the review of build year and base year together with a remaining useful life to calculate obsolescence rates. Evidence to support build and base years could not be provided. As such updated valuations were undertaken with revised build and base years. This resulted in adjustments to schools building valuations over a number of years, including 22/23 and also forms part of the Prior Period Adjustment.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings (continued)

- Two Assets under Construction (AUC), upon completion were transferred from AUC to Operational land and Buildings. The assets were not, however, revalued at this point and were included in the draft financial statements at historic cost. This is not in accordance with the CIPFA code. The assets have now been revalued as at 31st March 2023. The net impact is that the carrying values included in the accounts for these two assets at 31st March 2023 are overstated by £3.9m. Updated valuations have been adjusted in the financial statements.
- The Council has a number of land and building assets which have not been revalued in 2022/23. The Council was unable to provide evidence to support its view that the unvalued asset values would not have changed in value (since the last valuation date). The Council therefore instructed their valuer to review the ten highest value assets in detail. For ten of these assets the revised valuations indicate that the asset value was overstated by £4m. Updated valuations have been adjusted in the financial statements. For the remaining assets not revalued there is an uncertainty of £1.8m.

Revaluation reserve difference between Fixed asset Register (FAR) and General Ledger (GL)

The Council has identified that the revaluations reserve recorded in its FAR is £2m lower than that recorded in the general ledger. This is a historic difference the Council has amended in the current financial year as it does not meet the criteria of a prior period adjustment.

We have also identified a number of areas of improvement – reported as recommendations within Appendix B. These are as follows:

Asset register and valuations process housekeeping

. The Council's capital accounting process is currently over complicated and some accounting practices result in additional audit time being incurred to validate/understand the logic of transactions. Examples include:

- Assets are valued at 1st October rather than the year end. This requires additional reconciliation processes to agree the fixed asset register back to the valuation report and to consider any movements from the date of valuation to the year end value. This is not consistent with most other local authorities who arrange for valuations to be completed at the balance sheet date.
- capital additions and assets under construction brought into use in year are processed as a manual adjustment to the fixed asset register as at 31 March 2023 and then revalued in the following financial year. As at 31st March these assets are therefore carried at historic cost, which is not in accordance with the Code.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (continued)	<ul style="list-style-type: none">• finance leased assets are not included in the FAR and are processed as a manual adjustment to arrive at the figures to be included in the financial statements.• In the draft financial statements presented for audit £53.7m has been included in the financial statements at historic cost relating to land and building. This is not in accordance with the CIPFA code. Review of this balance has resulted in a number of changes to the financial statements.• The Councils asset register, once closed cannot be amended. This has been problematic in pr
	<p>Valuer Terms of Engagement</p> <p>It is a mandatory requirement under the RICS valuation guidance for the Council’s valuer to prepare Terms of Engagement documents for any valuation completed. Outline instructions were issued by the Council to the Valuer but terms of engagement have not been signed. Whilst there is no reason to suggest that the valuation process will not be in line with the guidance for the instruction element we are of the view that the Valuers should prepare a formal Terms of Engagement document prior to commencement of their work which the Council should review and sign up to ensuring that work is completed as required.</p>
	<p>Useful economic lives</p> <p>The Council has undertaken a review of all nil NBV assets during 22/23. This review has identified £5.4m of assets which were either no longer in use or had been scrapped. This has been adjusted in the financial statements as asset disposals, removing the gross carrying amount and the related accumulated depreciation . The Council confirmed to us that the residual balance of Nil NBV assets of £8.9m relate to assets which are still being used. We sampled tested these assets and our sample testing of this balance identified further assets which should have been treated as a disposal. This has no impact on PPE balances overall and is not a material value however it does indicate a weakness in the Councils current review process.</p> <p>This also indicates the Council’s accounting policy in relation to useful economic lives is not in line with what is happening in practice and therefore depreciation charges are not being spread across financial years correctly.</p>

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of the pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£576.4 million as at 31st March 2022) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- Updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report
- reviewed whether the pension fund has reported any material uncertainty in relation to investment property valuations as at 31 March 2023 and, if so, assess the impact on disclosures in the financial statements and on our audit opinion
- Obtained relevant assurances from the Pension Fund Auditor

Consideration of IFRIC 14

The Council's draft financial statements present a net pension liability of £20.4m in the Council's balance sheet.

This has been agreed to the IAS 19 report from the Council Actuary and is made up of £34.6m Unfunded benefits relating to compensatory added years and £14.2 LGPS net pension asset.

The Council has been challenged in relation to the right of offset of funded and unfunded balances. The Council has investigated this further and confirmed that the Compensatory added years were awarded under specific regulations:

- the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000
- The Local Government (Discretionary Payments) Regulations 1996

The Council has confirmed that Unfunded Compensatory Added Years (CAY) are separate liabilities and are not part of the County Council's pension sub fund. The Council is not aware of any legislation or scheme rules that allow the right to offset CAY across LGPS. The Teachers pension scheme is a completely separate pension scheme to the LGPS and will therefore have no right to offset assets/liabilities.

As such, we have concluded that the funded and unfunded elements cannot be offset and they have a liability in relation to unfunded benefits and an asset for the LGPS.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Valuation of the pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£576.4 million as at 31st March 2022) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

Following the identification of a pension asset, for the first time since IFRS have been adopted the council has had to consider the potential impact of IFRIC 14 - IAS 19 - the limit on a defined benefit asset. In summary, IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet. The Council has received an IFRIC 14 report from the Actuary and challenged where appropriate. The following additional audit procedures have been carried out in relation to IFRIC 14:

- Considered whether the approach taken by the Council in their IFRIC 14 assessment is in line with expectations
- Reviewed the Council's IFRIC 14 assessment
- Considered whether there is any additional liability arising from positive secondary contributions for past service costs
- Considered the sufficiency of financial statement disclosures

Our work in relation to IFRIC 14 is complete. We have identified the following:

Application of asset ceiling

Following the IFRIC 14 report the Council will apply an asset ceiling. This records the pension asset at nil value. A material amendment is required in the financial statements as follows:

Increase net pension liability £14.2m

Increase in pension reserve £14.2m

There is no impact on the Council's General Fund balances regarding this adjustment.

Financial statements disclosures

Net pension liability disclosures within the draft financial statements are not compliant with the CIPFA code. Where there are funded and unfunded elements, these should be separately disclosed. This disclosure has been revised by the Council and updated working provided to the audit team.

Our work is complete. We are satisfied necessary amendments have been made to the financial statements.

2. Financial Statements: Other risks

Risks identified in our Audit Plan	Commentary
<p>Completeness of non-pay operating expenditure</p> <p>Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses.</p> <p>Management uses judgement to estimate accruals of un-invoiced costs. Management also undertake an assessment of the levels of grant income received in the financial year to be deferred to future years based on the specific terms and conditions of funding.</p> <p>We therefore identify completeness of non-pay expenses as a risk requiring particular audit attention.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Evaluated the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness • gained an understanding of the Council's system for accounting for non-pay expenditure • tested a sample of balances included within trade and other payables • tested a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period. • test a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period. <p>Our testing did not identify any issues.</p>
<p>Operation of ledger and coding</p> <p>In our 2021-22 audit we identified that:</p> <ul style="list-style-type: none"> • The general coding structure appeared to be complex. • The Council uses a large number of ledger codes for debtors and creditors. • A number of ledger codes had not been fully reconciled for some time. • Income and non pay expenditure had a significant volume and value of debit and credit populations. 	<p>We have:</p> <ul style="list-style-type: none"> • Reviewed the ledger coding system to ensure we have a clear understanding of how management operate the ledger. Whilst we are satisfied, from our testing there are not material errors resulting from the ledger complexity this remains an issue for the analysis of populations for our work on Journals . Further details are included on pages 8 and 9 • Reviewed gross and net balances presented for audit to ensure that valid balances are not inappropriately removed • Tested a sample of debit and credit code reconciliations to ensure old balances are being cleared. We have identified, in relation to payroll control codes old balances are not being cleared. • Reviewed the income and non pay expenditure balances (and accounts receivable and payables balances) to ensure that contras are removed prior to sampling.

2. Financial Statements: Other risks

Risks identified in our Audit Plan

Commentary

East Midlands Freeport

The Council has provided us with a briefing note on the East Midlands Freeport (EMF). This confirms:

- As the accountable body for EMF LCC has agreed to provide EMF with a loan of £2.5m to cover its start up costs, to be repaid from future retained business rates.
- At 31 March 2022 LCC had incurred £716k and temporarily funded this from its own reserves. EMF was not a formal entity at this point
- At 31 March 2023 LCC has incurred a further £922k (total £1.7m) - to also be funded temporarily from its reserves
- On the 30th March 2023 the EMF was given the formal approval by central government and effectively started operating from this point. It appointed its first employee, the CEO and incurred £14k by 31.3.23.
- A draft loan agreement has been shared with the 12 EMF partners, but this has not yet been signed. Informal agreements are in place to underwrite the loan
- An NDR1 return has been prepared for the freeport zone area, which shows retained business rates (RBR) for 2023/24 of £1.1m of which £0.56m will come to the County to repay the loan. Forecasts made by the County for EMF show further RBR of £2.4m in 24/25 and £8.1m in 25/26 which will clear the start up advance.

We have:

- Reviewed the Council's proposed accounting treatment for the loan and associated liabilities
- Reviewed the Council's disclosure of the arrangements in its financial statements
- Reviewed the ownership of EMF and how profits, losses, assets and liabilities are shared between the partners. We need review the corporate structure and the associated accounting by the Council
- Reviewed the business rates model and accounting treatment for the Freeport's zone area.

Update to risk identified in audit plan

We note that the £2.5m has subsequently increased to an upper limit of £4m and latest forecasts generated through working with WSP, part of the Government's Freeport Hub, show further RBR of £4.3m in 24/25 and £6.8m in 25/26 available to EMF which will clear the start up advance. This has not impacted on the planned audit procedures carried out.

Whilst we are satisfied the accounting entries within the Council's 22/23 financial statements are not material we have identified weaknesses in governance arrangements as reported in the Auditors Annual Report.

Pooled infrastructure Fund

During the year the Council invested £8.7m in Pooled Infrastructure Funds, similar to the existing Pooled Property Funds held. Types of pooled infrastructure include, energy infrastructure, including renewables, water treatment works and transport infrastructure such as rail and air terminals.

We have:

- Reviewed the accounting for these arrangements held in the Council's accounts as long term investments.
- Reviewed the Council's valuation of the fund at 31 March 2023 and confirmed to third party confirmations.

We are satisfied with the accounting entries, related disclosures and valuation of these funds within the Council's 22/23 financial statements.

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Land and Building valuations – Other Land and Buildings £453.4m (per draft accounts)</p> <p>Assets Held for Sale £11.3m</p> <p>Surplus Assets £3.1m</p>	<p>Other land and buildings comprises specialised assets such as schools, libraries, depots and community centres, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use value (EUV) at year end. The Council has engaged Bruton Knowles as their expert valuer to complete the valuation of land and buildings as at 1 October 2022. 22/23 is the last year of valuations under this engagement with Bruton Knowles and the Council has engaged a new valuer from 23/24 onwards. Assets are revalued on a five yearly cyclical basis as a minimum with annual revaluations of the top 20 assets by value and all assets held for sale and surplus assets.</p> <p>Of the £453.4m other land and buildings management have obtained valuations for £267m (59%) of assets as at 1 October 2022. For those assets not subject to valuation in the current year (£186.4m) the Council has taken the following approach :</p> <ul style="list-style-type: none"> £53.7m relate to assets held at historic cost – This has been reviewed in detail by the Council and where appropriate updated valuations have been obtained. Adjustments to the financial statements have been made for those assets revalued and are reflected as part of the £9.2 m adjustment included in appendix D. The revised financial statements include £8m of assets held at historic cost. We estimate there is a potential understatement of £370k relating to these assets. We have raised a recommendation that these assets are subject to valuation as part of the 23/24 revaluation programme. £65m has been reviewed using the consideration of specific indices for example BCIS, movement in land prices and movement on office rentals. This has identified there is a potential understatement of £3m. £67m of assets (primarily schools) have also been considered using BCIS however the resulting movement was £6.6m (understatement). Upon review it was considered this did not represent the true movement of this asset category. As such, the Council instructed their valuer to carry out a desktop valuation as at 31st March 2023 of the top 10 assets by value in this category (totalling £30m). For the 10 assets revalued a £4m reduction in asset values has been identified, this forms part of the £9.2m adjustment in appendix D. The council has adjusted the financial statements for updated valuations. This leaves uncertainty of £4.8m overstatement for the remaining £37m in this category which has not been revalued. 	<p>Our work in this area is compete. See comments on issues arising to date on pages 10 to 12.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability £20.4m (as per draft financial statements)	<p>The Council's net pension liability at 31 March 2023 is £20.4m (PY £576.4m) relating to Leicestershire Pension Fund.</p> <p>The Council uses Hymans Robertson LLP to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial funding valuation is required every three years. The latest full actuarial funding valuation was completed as at 31 March 2022.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £503.1m net actuarial gain recognised in the Comprehensive Income and Expenditure account during 2022/23.</p>	<p>We have:</p> <ul style="list-style-type: none"> Undertaken an assessment of management's expert Assessed the reasonableness of the actuary's approach and of any changes compared to the prior year Used PwC as an auditors expert to assess actuary and assumptions made by actuary – as set out below <table> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> <tr> <td>Discount rate</td><td>4.75%</td><td>4.75 for all employers</td><td>●</td></tr> <tr> <td>Pension increase rate</td><td>3.0%</td><td>3.15% - 3.3%</td><td>●</td></tr> <tr> <td>Salary growth</td><td>3.5%</td><td>0.5% to 2.5% above pension increase rate</td><td>●</td></tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td><td>22.2/21.5</td><td>Confirmed consistent</td><td>●</td></tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td><td>25.7/24.3</td><td>Confirmed consistent</td><td>●</td></tr> </table> <ul style="list-style-type: none"> Sought explanations directly from the actuary for queries arising from review of the 2021/22 valuation and underlying assumptions. Reviewed the completeness and accuracy of the underlying information used to determine the estimate Reviewed the reasonableness of the Council's share of LGPS pension assets. Assessed the adequacy of disclosure of estimate in the financial statements <p>Our work in this area is complete.</p> <p>We have carried out additional audit procedures in relation to IFRIC 14. See pages 13 and 14 of this report. A material amendment is required in the financial statements as follows:</p> <p>Increase net pension liability £14.2m and corresponding entry to Pension Reserve.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	4.75%	4.75 for all employers	●	Pension increase rate	3.0%	3.15% - 3.3%	●	Salary growth	3.5%	0.5% to 2.5% above pension increase rate	●	Life expectancy – Males currently aged 45 / 65	22.2/21.5	Confirmed consistent	●	Life expectancy – Females currently aged 45 / 65	25.7/24.3	Confirmed consistent	●	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	4.75%	4.75 for all employers	●																								
Pension increase rate	3.0%	3.15% - 3.3%	●																								
Salary growth	3.5%	0.5% to 2.5% above pension increase rate	●																								
Life expectancy – Males currently aged 45 / 65	22.2/21.5	Confirmed consistent	●																								
Life expectancy – Females currently aged 45 / 65	25.7/24.3	Confirmed consistent	●																								

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious


2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Debtors credit loss allowance - £11.6m (prior year - £6.5) Of the £11.6m, £9.7m relates to residential and non-residential debt.	<p>Following a recommendation from the 21/22 audit the finance team have reviewed the calculation of credit loss allowance for the 22/23 financial year.</p> <p>The Council includes a credit loss allowance against outstanding debtor balances. The level of credit loss allowance for residential and non- residential debt is calculated on the following basis:</p> <p>A) Review of specific balances requiring provision</p> <p>B) Residential and non residential social care debt</p> <p>Less than one year old – 50% provision (prior year 5%)</p> <p>1-2 years old – 70% provision (prior year 25%)</p> <p>Over 2 years old – 90% provision (prior year 50%)</p>	<p>Based on our own review of the level of outstanding debtor balances we have concluded that there is unlikely to be a material misstatement in the total credit loss allowance figure as at 31 March 2023.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>





Assessment

- Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates





Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision (MRP) - £6.1m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>During 2020/21 the Council changed the basis of calculation of the MRP from a 4% reducing balance approach for supported borrowing to a 40 year straight line basis. The Council considered that this represented a more appropriate approach. The total amount of MRP payable was not affected by this change but it did mean a reduction in the charge in earlier years compared to the previous reducing balance approach. This change was approved by full Council at their meeting on 25 February 2021.</p> <p>The year end statutory MRP charge was £6.1m, which is in line with the MRP statutory charge in 2021/22 of £6.2m. We noted in 21/22 that an additional voluntary MRP provision was made of £12m funded from revenue and reserves balances in order to reduce the capital financing requirement and the Council's need to borrow in order to save future capital financing costs.</p> <p>The CFR as at 31 March 2023 was £207.8m, compared to a total debt of £264.3m long term and £3.7m short term. As such the Council was "overborrowed" by £60m at 31 March 2023. Full reporting of the position has been made by the Council in its Treasury Management Strategy and updates. The current 2023-27 MTFS includes an increase in prudential borrowing to fund the four year capital programme, including new major infrastructure projects. This will increase the CFR. However, due to the level of cash balances held the authority does not expect to need to raise external borrowing to fund the requirement and instead use internal cash balances. As a result, and using the latest forecasts in the draft MTFS 24-28, the overborrowed position is forecast to reduce to £18m as at 31.3.24 and revert to an under-borrowed position of £25m as at 31.3.27 and £55m under-borrowed by the end of the MTFS, 31.3.28.</p>	<p>We reviewed whether:</p> <ul style="list-style-type: none"> the MRP had been calculated in line with the revised policy the calculations to support the 40 year estimated average remaining useful lives of assets were reasonable and supported. The 'over borrowed' position has been fully reported to Council and the reasons for the short term position have been explained together with the strategy in the short term to reverse this overborrowed position. <p>Based on the above assessment we consider that management's estimate is reasonable and the 'over borrowed' position has been fully disclosed to Council together with the reasons which have led to the position and the way forward.</p>	 Light purple

Assessment





-  **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating				Additional procedures carried out to address risks arising from our findings
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks	
Fusion Cloud Services (finance and HR)	ITGC assessment (design and implementation effectiveness only)					Management override of controls (Journals)	N/A

Assessment

-  Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  Not in scope for testing

2. Financial Statements: other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Corporate Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the the Council's arrangements in respect of Equal Pay , which is set out at Appendix G .
Confirmation requests from third parties	We requested from management permission to send confirmation requests to those organisations with which it banks, borrows and in which it invests. This permission was granted, and the requests were sent. We have received all relevant confirmations requested.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. With the exception of Property, Plant and Equipment , where our work is ongoing we have found no other ,material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	<p>The 2022/23 audit has progressed at a faster pace than prior years but it has still taken longer than expected. We are aware this extended through the budget setting window of the Council which we appreciate is a challenging time and puts competing demands on finance staff. We have encountered some delays in relation to the quality of initial evidence provided to support income and expenditure transactions. This was escalated to senior finance team members who responded promptly to the issues raised.</p> <p>The Land and Building valuation process has been problematic throughout the audit with the final valuation report being provided to the council in April 2024 . This has incurred significant additional resource for the audit team and the Council's own staff.</p> <p>Moving forward, we will review, in detail, the 2022/23 audit process alongside the Council and agree how the 2023/24 audit timeline and procedures can be amended to ensure the audit is completed as efficiently as possible.</p>

2. Financial Statements: other communication requirements



Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Inconsistencies have been identified in respect of the Pension Fund Financial Statements which have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to Appendix I</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council does not exceed the stipulated thresholds this work is not required.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2022/23 audit of Leicestershire County Council in the audit report, as detailed in Appendix I.</p>



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3–5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix F.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Grant Thornton International Transparency report 2023](#).

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, which were charged from the beginning of the financial year to date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

These services are consistent with the Council’s policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees

Service	Fees £	Threats identified	Safeguards
Audit related			
21/22 Certification of Teachers Pension Return	£5,500	Self-Interest (because this is a recurring fee) Self Review	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fees for this work in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP’s turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. To mitigate against the management threat, ie acting in the capacity of management, the scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow.
22/23 Certification of Teachers Pension Return	£10,000	Management	
Local Transport Agreed Upon Procedures	£15,000		

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff.

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Appendices

- A. Communication of audit matters to those charged with governance
- B. Action plan – Audit of Financial Statements
- C. Follow up of prior year recommendations
- D. Audit Adjustments
- E. Fees and non-audit services
- F. Auditing developments
- G. Management Letter of Representation
- H. Audit opinion
- I. Audit letter in respect of delayed VFM work

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified eight recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<p>●</p> <p>High – Significant effect on financial statements</p>	<p>Asset register and valuations process housekeeping</p> <p>A number of areas have been identified in relation to the processing of capital accounting entries in the Council's Fixed asset register (FAR) and also the valuations process. The process is currently over complicated and some accounting practices result in additional audit time being incurred to validate/understand the logic of transactions. Examples include:</p> <ul style="list-style-type: none"> Assets are valued at 1st October rather than the year end. This requires additional reconciliation processes to agree the fixed asset register back to the valuation report and to consider the movements in values from to the year end. This is also not consistent with most other local authorities who arrange for valuations to be completed at the year end. capital additions and assets under construction brought into use in year are processed as a manual adjustment to the fixed asset register as at 31 March 2023 and then revalued in the following financial year. As at 31st March these assets are therefore carried at historic cost, which is not in accordance with the Code. finance leased assets are not included in the FAR and are processed as a manual adjustment to arrive at the figures to be included in the financial statements. In the draft financial statements presented for audit £53.7m has been included in the financial statements at historic cost relating to land and building which should in accordance with the CIPFA code be subject to revaluation. 	<p>The Councils needs to simplify its capital accounting processes. In particular:</p> <ul style="list-style-type: none"> For those assets not revalued as at 31st March the Council will need to satisfy itself that the carrying values of these assets are not materially different to the fair values. We strongly recommend the council aligns its valuation date to the year end. This consideration would then no longer be required. capital additions and AUC should be processed in the FAR throughout the year and form part of the revaluations process to ensure the carrying values at 31.3.23 are accurate. finance leased assets should be included in the FAR. land and buildings which are subject to formal revaluation per the CIPFA Code should not be included in the accounts at historic cost but should be revalued in line with the Code requirements. <p>Management response</p> <p>Agreed.</p> <p>The Council will work through the recommendations made during 2024 to improve processes. The Council will need to consult with its new external valuers the practicality of providing asset valuations (for both scheduled valuations and in year additions) as at 31 March and having time to complete the necessary checks and update its ledgers in time to produce draft accounts. The Council has a significant number of assets which makes this task very difficult in the time available.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Action Plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
<p>●</p> <p>Medium – Limited Effect on financial statements</p>	<p>Valuer Terms of Engagement</p> <p>It is a mandatory requirement under the RICS valuation guidance for the Council's valuer to prepare Terms of Engagement documents for any valuation completed. Outline instructions were issued by the Council to the Valuer and whilst there is no reason to suggest that the valuation process will not be in line with the guidance for the instruction element we are of the view that the Valuers should prepare a formal Terms of Engagement document prior to commencement of their work which the Council should review and sign up to ensuring that work is completed as required.</p>	<p>The Council should ensure that formal Terms of Engagement are in place and received from the Council's valuer prior to commencement of the valuations process.</p> <p>Management response</p> <p>Agreed – this will be implemented with the new External Valuer contract commencing for the 2023/24 valuations.</p>
<p>●</p> <p>Medium – Limited Effect on financial statements</p>	<p>Useful economic lives</p> <p>The Council has undertaken a review of all nil NBV assets during 22/23. This review has identified £5.4m of assets which were either no longer in use or had been scrapped. This value has therefore been processed as disposals in 22/23 therefore removing the gross carrying amount and the related accumulated depreciation. The residual balance of Nil NBV assets of £8.9m has been confirmed to relate to assets which are still being used. Our sample testing of this balance identified further assets which should have been treated as a disposal. This has no impact on PPE balances overall and is not a material value however it does indicate a weakness in the Councils current review process.</p> <p>This would suggest that the Council's accounting policy in relation to useful economic lives is not in line with what is happening in practice and therefore depreciation charges are not being spread across financial years correctly.</p>	<p>The Council should seek to extend the useful economic lives of assets as detailed in their accounting policy to mirror the actual length of time that assets are being used.</p> <p>The council also needs to review the £8.9m nil nbv assets and ensure all necessary adjustments are made to the asset register.</p> <p>Management response</p> <p>Agreed – this will be reviewed.</p>
<p>●</p> <p>Medium – Limited Effect on financial statements</p>	<p>VAT treatment</p> <p>Three errors have been identified when testing Operating Expenditure and Agency costs relating to the incorrect inclusion of VAT on accruals. Whilst we are satisfied this is not a material issue the Councils should ensure, when calculating accruals, VAT is considered appropriately.</p>	<p>The Council should review its processes in relation to accounting for VAT and ensuring expenditure is accounted for in the correct financial year.</p> <p>Management response</p> <p>Agreed – additional advice on this will be provided to budget managers as part of the year end guidance.</p>

Controls

● High – Significant effect on financial statements

● Medium – Limited Effect on financial statements

● Low – Best practice

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B. Action Plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
<p>● Medium – Limited Effect on financial statements</p>	<p>Over borrowed position</p> <p>The Council's narrative statement makes reference to the Council's overborrowed position which under the Prudential Code is permitted in the short term. Our benchmarking has identified that the Council's external debt as a percentage of CFR is 125% which put the Council outside of our expected range. We acknowledge that the current overborrowed position of £54m has been reported fully by the Council in its Treasury Management Strategy and the expected position will revert to an under borrowed position over the medium term.</p>	<p>The Council need to ensure the overborrowed position continues to be a short term position and that as the Treasury Management Strategy suggests that the position is reversed in the short term.</p> <p>Management response</p> <p>Agreed – the draft MTFS and TMSS for 2024-28 shows the position being temporary and reverting to an under-borrowed position within the MTFS period.</p>
<p>● Medium – Limited Effect on financial statements</p>	<p>Clearance of old reconciling items within control accounts</p> <p>Our testing of creditors identified 2 payroll pay over control accounts with balances which could not be reconciled to supporting evidence. The differences which could not be substantiated were below our trivial threshold at £120k and £140k. Our enquiries with the Council have confirmed that these differences relate to prior years and require investigation and possible write off. The risk is if such differences continue to be carried forward the balance will grow and any reasons for the differences will become more difficult to identify.</p> <p>We also identified a series of cumulatively trivial variances within the Council's School bank reconciliations.</p>	<p>Control accounts should be reviewed and any old balances written off rather than keep carrying these differences forward.</p> <p>Management response</p> <p>Agreed, work is continuing to review the balances. Action will be taken to resolve these by year end (31.3.24).</p>
<p>● High – Significant effect on financial statements</p>	<p>The Council has recorded rental income in the 2022/23 financial statements that pertains to future accounting periods. The reasons provided for such recording suggest that the focus is on including four quarters of invoices within the financial statements, irrespective of the period to which the income pertains.</p> <p>This is an incorrect application of the accruals concept.</p>	<p>The Council should undertake a review of this matter and ensure that it is not a more widespread issue across the Council. If deemed necessary, training should be revised to ensure that key accounting concepts are applied consistently, not only at year-end but throughout the financial year.</p> <p>Management response</p> <p>Action has already been taken to address this issue and additional advice will be provided to all budget managers as part of the year end guidance.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Action Plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
Low – Best Practice	<p>Immaterial balances – supporting notes</p> <p>The accounts include a number of immaterial balances where a supporting note has been included. E.g. surplus assets, investment properties and inventories.</p>	<p>The Council should consider removing notes relating to immaterial balances to ‘de-clutter’ its accounts.</p> <p>Management response</p> <p>The Council will review as part of the production of the 2023/24 financial statements.</p>
<p>●</p> <p>Medium – Limited Effect on financial statements</p>	<p>Payables and receivables disclosures</p> <p>Payable and receivable disclosures within the notes to the financial statements are not compliant with the CIPFA code. They add no information for the reader in their current format.</p>	<p>The councils should review its disclosures and ensure they are code compliant.</p> <p>Management response</p> <p>The Council will review as part of the production of the 2023/24 financial statements.</p>
<p>●</p> <p>Medium – Limited Effect on financial statements</p>	<p>Pooled budget arrangements disclosures</p> <p>The current pooled budgets disclosure does not clearly document the actual impact on the Council’s accounts of being involved in the arrangement.</p>	<p>The Council should add sufficient detail to enable the reader to clearly see that impact on the Council’s financial statements of the pooled budget arrangements disclosed.</p> <p>Management response</p> <p>The Council will review as part of the production of the 2023/24 financial statements.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

C. Follow up of prior year recommendations

We identified the following issues in the audit of Leicestershire County Council's 2021/22 financial statements, which resulted in 9 recommendations being reported in our 2021/22 Audit Findings report. We have followed up on the implementation of our recommendations and note five are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Timing of the derecognition of academy schools</p> <p>Our testing has identified that there is have been delays in the removal of two academy schools from the Council's asset register on conversion to academy status. This relates to the build of the schools and the management of assets under construction. This has resulted in disposals being recorded in the incorrect financial year.</p> <p>Recommendation</p> <p>The Council should implement processes to ensure that schools are derecognised promptly on their conversion to academy status.</p>	<p>Processes have been updated and our audit work in 22/23 has checked that academy conversions in 22/23 have all been processed correctly and derecognised in the correct year.</p>
X	<p>General ledger coding structure</p> <p>The Council ledger structure is also set up in such a way that for many balance sheet codes, separate debit and credit codes are maintained. This leads to sometimes significant balances building up on codes where have not always been cleared down promptly. It should consider whether the c54,000 code combinations that it uses are needed.</p> <p>Recommendation</p> <ul style="list-style-type: none"> The Council should review the need to maintain separate debit and credit ledger codes for account balances. Where they are required for reconciliation purposes the Council should ensure that they are cleared down regularly, as a minimum every financial year. We have agreed to review this area with officers post audit. 	<p>This recommendation was raised in March 2023 so it was too late to be implemented for 22/23. The findings for 22/23 are consistent with 21/22 noting that the Council's ledger contained 5.3 million lines of data which is significantly higher than other comparable Councils. The size and volume of data being processed at the Council therefore results in additional audit time and procedures to understand the data and cleanse the data appropriately in order to test balances in the most efficient way.</p> <p>The recommendation therefore has not yet been addressed and will continue to be reported.</p> <p>Management update 2022/23</p> <p>The Council will continue to review this area and look further into the overall volume of transactions used. The Council uses a fully integrated modern cloud based ERP system with many integrated Oracle modules, and external feeder systems posting at detailed level, to manage its various and complex service areas. This supports detailed budget monitoring, and reconciliation of its balance sheet and system control accounts.</p>

Assessment

✓ Action completed

X Not yet addressed

C. Follow up of prior year recommendations (Continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Income and expenditure gross balances</p> <p>Our review of income and non pay expenditure transaction populations identified a significant volume and value of gross debits and credits included in populations due to the way the Council uses journals to reallocate costs and income between cost centres.</p> <p>Recommendation</p> <ul style="list-style-type: none"> The Council could reduce the level of audit input required in these areas by “cleansing” populations prior to audit to ensure that only those transactions which directly impact on the financial statements are included in populations provided for audit. We have agreed to review this area with officers post audit. 	<p>This recommendation was raised in March 2023 so it was too late to be implemented for 22/23. The findings for 22/23 are consistent with 21/22 noting that the Council’s ledger contained 5.3 million lines of data which is significantly higher than other comparable Councils. The size and volume of data being processed at the Council therefore results in additional audit time and procedures to understand the data and cleanse the data appropriately in order to test balances in the most efficient way.</p> <p>The recommendation therefore has not yet been addressed.</p> <p>Management update 2022/23</p> <p>The Council will continue to review this area and look further into the overall volume of transactions used. The Council uses a fully integrated modern cloud based ERP system with many integrated Oracle modules, and external feeder systems posting at detailed level, to manage its various and complex service areas. This supports detailed budget monitoring, and reconciliation of its balance sheet and system control accounts.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

C. Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Use of a large number of ledger codes within debtor and creditors</p> <p>The Council's ledger includes a large number of codes which make up the year end debtor and creditor figures. The approach taken by the Council is to maintain separate debit and credit ledger codes for transactions such as payroll and VAT postings. This leads to large debit and credit balances on the ledger and requires a review by Council officers to ensure that balances are netted off where required in preparing the financial statements.</p> <p>Recommendation</p> <p>The Council should</p> <ul style="list-style-type: none"> review the need to maintain a high number of separate ledger codes within debtors and creditors Establish a clear framework setting out which codes can be netted off when preparing financial statements and which codes need to be presented gross. <p>We have agreed to review this area with officers post audit.</p>	<p>This recommendation was raised in March 2023 so it was too late to be implemented for 22/23. The findings for 22/23 are consistent with 21/22 noting that the Council's ledger contained 5.3 million lines of data which is significantly higher than other comparable Councils. The size and volume of data being processed at the Council therefore results in additional audit time and procedures to understand the data and cleanse the data appropriately in order to test balances in the most efficient way.</p> <p>The recommendation therefore has not yet been addressed.</p> <p>Management update 2022/23</p> <p>The Council will continue to review this area and look further into the overall volume of transactions used. The Council uses a fully integrated modern cloud based ERP system with many integrated Oracle modules, and external feeder systems posting at detailed level, to manage its various and complex service areas. This supports detailed budget monitoring, and reconciliation of its balance sheet and system control accounts.</p>
✓	<p>Reconciliation of ledger codes</p> <p>Our audit testing identified one creditors code which had not been fully reconciled for some time, and included postings dating back to 1996.</p> <p>Recommendation</p> <ul style="list-style-type: none"> The Council should ensure that full reconciliations are undertaken on all ledger codes and old balances cleared as appropriate. We have agreed to review this area with officers post audit. 	<p>The creditors code has now been fully reconciled and brought up to date for year end, 31.3.23.</p> <p>All balance sheet codes are subject to quarterly review.</p>

Assessment

✓ Action completed

X Not yet addressed

C. Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Derecognition of plant and equipment assets on disposal</p> <p>Testing of a sample of fully depreciated assets identified a number which had been disposed of or written off but were still included on the fixed asset register. As a result gross cost and depreciation are potentially overstated.</p> <p>Recommendation</p> <p>The Council should</p> <ul style="list-style-type: none"> • implement processes to ensure that plant and equipment assets disposed of or written off are removed from the fixed asset register promptly, and • Review the current fixed asset register to identify any further assets still held on the fixed asset register which have been disposed of or written off. 	<p>We have closed this prior year recommendation but raised a linked current year recommendation in appendix B.</p> <p>The Council has undertaken a review of all nil NBV assets during 22/23. This review has identified £5.4m of assets which were either no longer in use or had been scrapped. This value has therefore been processed as disposals in 22/23 therefore removing the gross carrying amount and the related accumulated depreciation. The residual balance of Nil NBV assets of £8.9m has been confirmed to relate to assets which are still being used. Our sample testing of this balance identified further assets which should have been treated as a disposal. This has no impact on PPE balances overall and is not a material value however it does indicate a weakness in the Councils current review process.</p> <p>This would suggest that the Council's accounting policy in relation to useful economic lives is not in line with what is happening in practice and therefore depreciation charges are not being spread across financial years correctly.</p>
✓	<p>Calculation of the debtors credit loss allowance</p> <p>Our discussions with finance staff indicate that this policy has been applied for a number of years without amendment. We requested evidence to support the validity of the percentages used such as evidence on actual levels of debt write offs/recoverability but the Council has been unable to provide this level of evidence to support the reasonableness of the percentages used.</p> <p>Recommendation</p> <p>The Council should review the basis of calculation of the credit loss allowance to ensure that it is based on current, reliable data on the level of credit losses expected.</p>	<p>The Council as a result of this recommendation has reviewed its formal policy in relation to the credit loss allowance and has as a result revised the percentages used. We have reviewed and tested the reasonableness of the policy and calculations and have not identified any further issues.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

C. Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Journal authorisation</p> <p>We note that journals below £20,000 are not authorised. While the value is below materiality (c.£5m) we consider that this is a control weakness and that all journals should be reviewed and authorised.</p> <p>Recommendation</p> <p>The Council should ensure that all journals are reviewed and approved by an independent officer.</p>	<p>We have completed targeted audit testing around authorisation and as in the prior year we have identified that all journals below £20,000 do not require authorisation. We have noted that all such journals are restricted to being posted by specific finance officers in the Central Technical Accounting Team which has been confirmed by our testing completed. The total value of such journals is £4.583m and therefore the risk is not material.</p> <p>We will continue to recommend that all journals should be reviewed and authorised as we consider that this is a control weakness.</p> <p>Management update 2022/23</p> <p>A review will be undertaken to assess the impact of the change. Internal Audit will also be asked to review a sample of journals as part of their annual assurance work.</p>
X	<p>Mass migration journals</p> <p>The Council undertakes periodic (usually monthly) journal postings in which the Council transfers the totals for each department to the general fund. In addition, allocations are also used to allocate balances on Reserves, Provisions and other technical control accounts, (used to show the in year movements on those accounts), to their balance sheet codes. These postings are undertaken to balance the balance sheet on a regular basis in order to produce its monthly accounts. The extent of these postings not only increases the volume of transactions but also the risk that there may be errors in amounts and account codes as these are copied from system reports by the corporate finance team</p> <p>Recommendation</p> <ul style="list-style-type: none"> The Council should review its use of journals and monthly closedown procedures to ensure that its processes continue to be appropriate. We have agreed to review this area with officers post audit. 	<p>For journal testing completed this continues to be the case in 22/23. The extent of these postings not only increases the volume of transactions but also the risk that there may be errors in amounts and account codes as these are manually typed in by the finance team.</p> <p>We will continue to recommend that the Council reviews its use of journals and monthly closedown procedures to ensure its processes continue to be appropriate.</p> <p>Management update 2022/23</p> <p>The Council will continue to review this process and look to automate it within the system where possible</p>

Assessment

✓ Action completed

X Not yet addressed

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D. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Comprehensive Income and Expenditure Statement £m	Balance Sheet £m	Impact on total net expenditure £m
22/23 Land and building valuation adjustment A number of issues have been identified throughout the testing of 22/23 Land and Building valuations. This has resulted in a Prior Period Adjustment as detailed separately below however, there are other adjustments which relate to 22/23 only. Further detail is included on page 10.	Increase total expenditure by £7.2m and reduce surplus on revaluation of PPE by £2m	Reduce Property, Plant and Equipment by £9.2m	Increase net expenditure by £7.2m . (This is reversed out Via MIRS and has no impact on the Councils General Fund balance)
Prior period adjustment – Land and Buildings Our testing of land and buildings valuations identified a number of issues, the most significant being in relation to Schools Land and Buildings. This has resulted in a Prior Period Adjustment of £40.1m, reducing the Council's asset valuation as at 31 March 2022 by £40.1m with opposite entry impacting on the Councils revaluation reserve. This does not have any impact on the Council's General Fund Balance. Further detail is provided below.		Reduce opening land and building values by £40.1m Reduce opening revaluation reserve by £28.4m Reduce opening capital adjustment account by £11.7m	Nil no impact on the (Surplus)/ deficit on provision of services
Revaluation reserve difference between Fixed asset Register (FAR) and General Ledger (GL) The Council has identified that the revaluations reserve recorded in its FAR is £1.8m lower than that recorded in the GL. This is a historic difference the Council has amended in the current financial year.		Debit Revaluation reserve £1.8m Credit Capital Adjustment Account £1.8m	Nil no impact on the (Surplus)/ deficit on provision of services
IFRIC 14 The draft financial statements show a net pension liability of £20.4m. It has been identified that the Council has incorrectly offset a pension liability relating the Teachers unfunded liability position with a pension asset of the LGPS. As there is a net pension asset for LGPS the Council is required to consider the requirements of IFRIC 14. The council has received a IFRIC 14 report from their Actuary and determined the asset ceiling will apply and as such will be showing a nil asset. The Council's net pension liability has therefore increased by £14.2m to £34.6m.		Increase Pension fund net liability £14.2m. Increase Pension reserve by £14.2m	Nil no impact on the (Surplus)/ deficit on provision of services

D. Audit Adjustments (continued)



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Corporate governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £m	Balance Sheet£m	Impact on total net expenditure £m	Reason for not adjusting
Assets not valued uncertainty The Council has a number of assets which have not been revalued by the Council's valuer in the current audit year. We have reviewed the carrying values of these assets to assess whether these are materially different to the fair value. This exercise has identified there is an uncertainty of £1.813m and the carrying value estimate could be overstated by this amount.		Credit PPE OLB £1.4m Debit RR £1.4m		Estimation uncertainty only
Debtors Debtors sample testing has identified a transaction relating to rental income which has been billed in advance by the Council totalling £402k which is not a valid debtor. In conjunction with the Council we have isolated all rental invoices and quantified this error within the debtors population. The resulting error is that debtors and income are overstated by £1.358m.	Debit income £1.358m	Credit Debtors £1.358m	Income overstated £1.358m	Not material

D. Audit Adjustments (continued)



Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements. We are satisfied

Detail	Comprehensive Income and Expenditure Statement £m	Balance Sheet £m	Impact on total net expenditure £m	Reason for not adjusting
Overstatement of pension liability	0	Dr Pension liability - £2.3m Cr Pension reserve - £2.3m	0	Not material
Potential understatement of debtors credit loss allowance	Dr Operating expenditure - £2.0m	Cr Debtors - £2.0m	Dr Operating expenditure - £2.0m	Not material
Derecognition of academy schools in the incorrect financial year	Cr Loss on disposal of assets - £8.4m	No impact on position at 31 March 2022	Cr Loss on disposal of assets - £8.4m	Not material
Potential overstatement of debtor balances due to subsequent issue of credit notes	Dr income £1.0m	Cr Debtors £1.0m	Dr income £1.0m	Not material
Movement on valuations on assets not revalued in 2021/22		Dr land and buildings - £2.8m Cr revaluation reserve - £2.8m		Uncertainty – adjustment not expected
Overall impact	Dr Operating expenditure - £2.0m Cr Loss on disposal of assets - £8.4m Dr income £1.0m	Dr Pension liability £2.3m Cr Debtors - £3.0m Dr Land and buildings - £2.8m Cr reserves - £5.1m	CIES net impact – Cr £5.4m	

D. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
General A small number of minor amendments were made to correct typing errors, page numbering and incorporate additional narrative information. We do not deem these significant enough to bring to the attention of those charged with governance. There are rounding differences throughout the accounts.	<p>Typographical errors should be amended</p> <p>The Council should add a statement within its Accounting Policies disclosing there are a number of rounding differences of +/- £0.1m within totals due to the accounts being to the nearest £0.1m</p>	Yes
Pension Fund accounts The Council includes the Pension Fund Accounts within its financial statements. A number of the tables within these were showing as 'error! Reference source not found'.	The Council need to ensure that all error references are updated to mirror the final figures and narratives as disclosed in the audited Leicestershire County Pension Fund Accounts 2022/23.	Yes
Expenditure and funding analysis Note 2(a) In the table showing the adjustments between funding and accounting basis the Council has included £15.8m for central items relating to adjustments for pensions purposes within the 'Net cost of Services' section in error. This entry should be included in the 'Other income and expenditure from the EFA line'	Move £15.8m from the central items line in Note 2(a) to the 'Other Income and expenditure from the EFA' line.	Yes
Financial statements disclosures Net pension liability disclosures within the draft financial statements are not compliant with the CIPFA code. Where there are funded and unfunded elements, these should be separately disclosed.	Funded and unfunded elements are to be disclosed separately	Yes
Note 23 Short term debtors Per IAS 1 para 78 and CIPFA Code Para 3.4.2.67 receivables disclosed should be disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts. The Council's current disclosures are not code compliant	<p>The Council need to amend note 23 – Short Term debtors to comply with IAS1 Para 78 and the CIPFA Code 3.4.2.67.</p> <p>Management response</p> <p>The Council will review as part of the production of the 2023/24 financial statements.</p>	No

D. Audit Adjustments

Misclassification and disclosure changes (continued)

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
<p>Note 26 Short term creditors</p> <p>Per IAS 1 para 78 and CIPFA Code Para 3.4.2.64 creditors disclosed should be disaggregated into appropriate sub classifications. The Council's note does not include any sub classifications.</p>	<p>The Council need to amend note 26 – Short Term creditors to comply with IAS1 Para 78 and the CIPFA Code Para 3.4.2.64.</p> <p>Management response</p> <p>The Council will review as part of the production of the 2023/24 financial statements.</p>	No
<p>Pooled Budgets Note 31</p> <p>The current pooled budgets disclosure does not clearly document the actual impact on the Council's accounts of being involved in the arrangement.</p>	<p>The Council should add sufficient detail to enable the reader to clearly see that impact on the Council's financial statements of the pooled budget arrangements disclosed.</p> <p>Management response</p> <p>The Council will review as part of the production of the 2023/24 financial statements.</p>	No
<p>Related Party Disclosures Note 37</p> <p>Two related party transactions disclosed by the Council do not meet the criteria set in IAS 24 as the individuals do not have significant influence and control over the other entities.</p>	<p>The Council should remove the 2 individuals from the related party disclosure which do not meet the requirements of IAS24.</p>	Yes
<p>Note 47 Accounting policies (6. Assets under construction)</p> <p>The current policy is not clear as this states the values included in the accounts are based on actual payments made, which would imply cash accounting which is not correct.</p>	<p>The Council should expand the accounting policy in relation to assets under construction to reflect that the carrying value is based on costs incurred to 31 March 2023.</p>	Yes

D. Audit Adjustments

Misclassification and disclosure changes (continued)

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
<p>Note 47 Accounting policies (6. Land and Buildings)</p> <p>The current policy refers to 'current asset values as of ...1 October 2020' which is incorrect as current valuations are dated 1 October 22.</p>	The Council should amend the land and building policy to refer to 1 October 2022 as the most recent date of valuations of these assets.	Yes
<p>Note 47 Accounting policies (6. Assets held for sale)</p> <p>The current policy discloses 'The asset is revalued immediately on an open market basis' which needs further details to be added to ensure the basis is clearly disclosed</p>	The Council should add additional detail to this policy to explain that the asset is then carried at the lower of the previous carrying value and FV less costs to sell to ensure policy is clear.	Yes

D. Audit Adjustments

Misclassification and disclosure changes (continued)

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
<p>Note 20 Financial Instruments</p> <p>The original note presented in the draft accounts did not comply fully with the requirements of IFRS9, IFRS7 and IFRS32. In particular:</p> <ul style="list-style-type: none"> -Capital Grants receipts in advance totalling £74m long term and £59.3 short term have been included in error. This also impacts the prior period. Relevant Prior period adjustment disclosures will need to be made in accordance with IAS 8. - Carrying amount of assets and liabilities carried at amortised cost is incorrect and should be changed from £623.8m to £568.3m. narrative disclosures are inconsistent with policies and the figures included in Note 20. Disclosures do not make reference to the Pooled Infrastructure valuation method and Capital release funds (NAV) which are level 2 investments. in relation to long term investments carried at Fair Value additional disclosures around exposure to gains and losses. Exposure to credit risk makes reference to 0.3% on the sales ledger which does not link with the credit loss allowance made and the table should be removed also reference to doubtful debts is incorrect. It is currently difficult for the reader of the accounts to identify the link between the balance sheet figures and the Financial Instruments note. 	<p>The Council should review its financial instruments disclosure fully and ensure :</p> <ul style="list-style-type: none"> Disclosures are code complaint There is clear linkage to other disclosures within the financial statements were appropriate Disclosures are clear for the reader of the accounts 	Yes

E. Fees and non-audit services

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Scale fee	75,315	75,315
Additional work on Value for Money (VFM) under new NAO Code	19,000	19,000
Enhanced audit procedures for Property, Plant and Equipment – use of auditors expert	5,000	5,000
Increased audit requirements of revised ISAs 540	6,000	6,000
Enhanced audit procedures on journals testing (not included in the Scale Fee)	3,000	3,000
Ledger configuration and reconciliation	7,500	7,500
Infrastructure	2,500	2,500
Payroll – change of circumstances testing	500	500
ISA 315	5,000	5,000
East Midlands Freeport	5,000	5,000
Operating expenditure and fees and charges evidence		1,500
Property, Plant and Equipment 22/23 and PPA		43,425
Financial Instruments restatement and PPA		5,000
Expert Fee		3,000
Receivables extended testing		3,250
IFRIC 14 consideration		4,000
Total audit fees (excluding VAT)	£128,815	£179,000

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services – 22/23 Teachers Pension Agency return	£10,000	£10,000
Total non-audit fees (excluding VAT)	£10,000	£10,000

The fees reconcile to the financial statements as follows :

- fees per financial statements – annual audit £179,000 per previous page
- Total fees per updated financial statements -£179,000 (extract below)
- Teachers pensions Agency return £10,000 under separate engagement

Local Transport plan fee of £15,000 will be accounted for in the 23/24 financial year.

Note 34: External Audit Costs

The Authority has incurred the following costs in relation to the audit of the statement of accounts:

2021/22 £		2022/23 £
	Fees payable to external auditor:	
139,777	Annual audit	179,000
6,917	Other services provided during the year	10,000
146,694	Total	189,000

None of the above services were provided on a contingent fee basis.

The final audit fee will be invoiced following PSAA approval.

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

This impacts audits of financial statement for periods commencing on or after 15 December 2021.

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	<p>The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of:</p> <ul style="list-style-type: none"> the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures the identification and extent of work effort needed for indirect and direct controls in the system of internal control the controls for which design and implementation needs to be assess and how that impacts sampling the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	<p>Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.</p>
Professional scepticism	<p>The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to:</p> <ul style="list-style-type: none"> increased emphasis on the exercise of professional judgement and professional scepticism an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence increased guidance on management and auditor bias additional focus on the authenticity of information used as audit evidence a focus on response to inquiries that appear implausible
Definition of engagement team	<p>The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor.</p> <ul style="list-style-type: none"> Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	<p>The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to:</p> <ul style="list-style-type: none"> clarification of the requirements relating to understanding fraud risk factors additional communications with management or those charged with governance
Documentation	<p>The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.</p>

G. Management Letter of Representation

Date – To be confirmed

Dear Grant Thornton

Leicestershire County Council

Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of Leicestershire County Council for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the Council's financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law. We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. **The prior period adjustments disclosed in Note 8 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.**
- viii. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.
- ix. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council have been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- x. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- xi. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

F. Management Letter of Representation (continued)

- xii. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xiii. We have considered the unadjusted misstatements schedule included in your Audit Findings Report, including unadjusted disclosure items. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council. The financial statements are free of material misstatements, including omissions.
- xiv. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xv. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xvi. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:
 - a. the nature of the Council means that, notwithstanding any intention to cease the Council's operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
 - b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
 - c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

- xvii. We have considered whether the Council is required to reflect a liability in respect of equal pay claims within its financial statements. We confirm that we are satisfied that no liability needs to be recognised on the grounds that:

- a. The Hay Job Evaluation system (which is used across jobs in the Council's main pay grade structure) continues to ensure that there is no significant discrimination in basic pay. This provides significant reassurance that Leicestershire County Council provides fair pay and reward to Council employees.

- b. We conduct an equal pay audit every three years.

- xvii. We have undertaken a review of all operational Council buildings for instances of reinforced autoclaved aerated concrete (RAAC) and can report that there are no cases of RAAC discovered within any of our maintained schools. However, RAAC was discovered in one vacant office location which has been mitigated following advice from specialist advisors and does not present any significant financial liabilities.

Information Provided

- xviii. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.
- xix. We have communicated to you all deficiencies in internal control of which management is aware.
- xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

G. Management Letter of Representation (continued)

xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:

- a. management;
- b. employees who have significant roles in internal control; or
- c. others where the fraud could have a material effect on the financial statements.

xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxv. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxviii. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Corporate Governance Committee at its meeting on 20 May 2024.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council



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Audit Findings Report for Leicestershire County Council Pension Fund

Year ended 31 March 2023

12 February 2024



Contents



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This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Corporate Governance Committee.

Name: Mark Stocks
For Grant Thornton UK LLP
Date: 12 Feb 2024

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Leicestershire County Pension Fund (‘the Pension Fund’) and the preparation of the Pension Fund’s financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Financial Statements

<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice (‘the Code’), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Pension Fund’s financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund’s assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year; andhave been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	<p>Our audit work was completed remotely during July-November. Our findings are summarised on pages 5 to 18.</p> <p>We have not identified any adjustments to the financial statements that impact upon the Pension Fund’s reported financial position.</p> <p>Whilst we have not identified any material differences however we have identified £3.798m of differences in the valuation of the Fund’s investments disclosed in the financial statements at 31 March 2023 and the valuation statements received from the third-party investment managers. Management are proposing not to amend the financial statements on the basis that the differences are not material (0.1% of investment assets) and the Corporate Governance Committee will be asked to confirm their agreement.</p> <p>Audit adjustments are detailed in Appendix D.</p> <p>We have raised new recommendations for management as a result of our audit work (Appendix B). As noted below there is some work to be finalised and whilst we do not anticipate recommendations arising from this if significant matters arise we will communicate these separately. Our follow up of recommendations from the prior year’s audit are detailed in Appendix C.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit, subject to the following outstanding matters;</p> <ul style="list-style-type: none">Finalisation of Manager and Engagement Lead quality control reviews;Receipt of management representation letter {shared separately}; andReview of the final set of financial statements. <p>We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated opinion on the financial statements will be unmodified.</p> <p>Whilst our work on the Pension Fund financial statements is almost complete, we will be unable to issue our final audit opinion on the Pension Fund financial statements until the audit of the Administering Authority is complete.</p> <p>We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. The Pension Fund Annual Report has been published and we have reviewed it. The annual report is consistent with the audited financial statements. We have therefore issued a separate opinion and will be signed on the completion of the audit of the administering authority.</p>
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1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/about-time/)

We would like to thank everyone at the Pension Fund for their support in working with us to ensure the Pension Fund’s audit has not fallen behind and to seek finalisation of our work.

Local context - triennial valuation

Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of the Pension Fund and set employer contribution rates for the period 2023/24 – 2025/26. For the Pension Fund, the valuation was undertaken by Hymans Robertson LLP and showed that the solvency funding level is 105%.The results of the latest triennial valuation are reflected in the actuarial statement included as an appendix to the financial statements. These valuations also provide updated information for the net pension liability on employer balance sheets.

We have performed testing of the completeness and accuracy of triennial valuation source data. This was to support our work on the other information disclosures made in the Pension Fund accounts and for providing assurances to auditors of employer bodies. As part of this work, we tested a sample of 25 members drawn from the pensioners, deferred and active populations and found the source data to be complete and accurate. This additional testing is only required after each triennial review, rather than annually. See Appendix E for the impact of this work on our 2022/23 audit fee.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice (‘the Code’). Its contents will be discussed with management and the Corporate Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

For Leicestershire County Council Pension Fund, the Corporate Governance Committee is charged with governance and fulfils the role of those charged with governance i.e. it considers the draft financial statements and is part of the overall member oversight process and recommends adoption of the financial statements to the Corporate Governance Committee.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund’s business and is risk based, and in particular included:

- An evaluation of the Pension Fund’s internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have altered our audit plan, as communicated to you in September 2023, to reflect a change of the planning materiality for the financial statements. We have reduced the benchmark from 1.50% to 1.20% of net assets. See page 6 for the revised amounts.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion. We cannot issue our opinion until audit work on the Council’s accounts (as Administering Authority and whose accounts the Pension Fund’s accounts form part of) has been completed.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the Treasury and Pension Team staff.

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels have been changed from what was reported in our audit plan. We have revised the materiality percentage for financial statements from 1.5% to 1.20% for net assets.

We set out in this table our determination of materiality for the Pension Fund.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	£69.2m	We determined materiality for the audit of the Pension Fund's financial statements as a whole to be £69.2m, which is approximately 1.20% of the Pension Fund's net assets as at 31 March 2023. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in security and value of the Pension Fund's assets.
Performance materiality	£48.50m	We have determined £48.50m (70% of materiality) to be an appropriate level for Performance Materiality. The Pension Fund has a stable, experienced team with no history of accounting issues and this continues to be the case.
Trivial matters	£3.46m	We deem matters below 5% of materiality to be sufficiently trivial not to warrant drawing to the attention of the Corporate Governance Committee.
Materiality for fund account	£25m	We determined materiality for the fund account transactions based on 10% of total expenditure as at 31 March 2023.



2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Below is a summary of the work performed:</p> <ul style="list-style-type: none">• evaluated the design and implementation of management controls over journals• analysed the journals listing and determined the criteria for selecting high risk unusual journals• identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration• gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. <p>No changes have been identified to the accounting policies and the estimation process for the valuation of the defined benefit schemes and plan assets.</p> <p>Our audit work has not identified any significant issues in respect of management override of controls.</p>
<p>Improper revenue recognition</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition are very limited• the culture and ethical frameworks of local authorities, including the Leicestershire County Council (Administering Authority), mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Leicestershire Pension Fund.</p>	<p>There were no changes to our assessment reported in the audit plan and the audit work performed did not identify any issues in respect of revenue recognition.</p>
<p>Fraud in Expenditure Recognition</p> <p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially an entity that is required to meet financial targets. Having considered the risk factors relevant to the Pension Fund and the relevant expenditure streams, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed above relating to revenue recognition apply.</p> <p>We therefore do not consider this to be a significant risk for the Pension Fund.</p>	<p>There were no changes to our assessment reported in the audit plan and the audit work performed did not identified any issues in respect of expenditure recognition.</p>

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of Level 3 Investments (private equity, pooled investment vehicles and unquoted equity)

The Fund revalues its investments on frequently to ensure that the carrying value is not materially different from the fair value at the financial statements date.

By their nature Level 3 investment valuations lack observable measurable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.

Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2023.

We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.

Below is a summary of the work performed:

- evaluated management's process for valuing Level 3 investments
- reviewed the nature and basis of estimated values and considered the assurance management has over the year end valuations provided for those types of investments, to ensure that the requirements of the Code are met
- independently requested year-end confirmations from investment managers and the custodian and considered the role played by the custodian in asset valuation
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date, reconciling those values to the values at 31 March 2023 with reference to known movements in the intervening period where necessary.
- tested valuations made during the year to see if they had been input correctly into the Pension Fund's ledger.
- where available, reviewed investment manager service organisation reports on design effectiveness of internal controls. Identify the key valuation controls at the fund managers (and where appropriate the custodians) and consider the design effectiveness of the controls through enhanced documentation of our consideration of the relevant controls reports.

Our audit work identified that the actual value of investments as at 31 March 2023 had risen by £7.574m from that estimated in the accounts. This was largely attributed to £3.156m increase in Level 3 asset values, and an increase of £4.417m in Level 1 assets. The largest movement in Level 3 assets was related to Adams Street private equity portfolio (£4.635m) final capital statements not being available when the Pension Fund's accounts presented for audit were closed down. Timing differences such as this are not unusual within Pension Funds. The difference is 0.1% of total investment assets and less than 50% of our performance materiality. Management has not amended the Pension Fund's Statement of Accounts on the basis that the difference is not materially quantitatively or qualitatively to readers of the accounts.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
<p>Valuation of Level 3 Investments (Directly held property)</p> <p>The Fund has investment in directly held property and has engaged an external valuer Colliers Capital their RICS qualified valuer to complete the valuation of properties as at 31st March 2023. Investment Properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between the market participant at the measurement date)..</p> <p>By their nature Level 3 investment valuations lack observable measurable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Below is a summary of the work performed:</p> <ul style="list-style-type: none">• evaluated the processes, controls and assumptions put in place by management to ensure that the valuation is not materially misstated and evaluate the design of these and whether they are sufficient to mitigate the risk of material misstatement;• communicated with the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the reporting framework are met• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, particularly around yields and rents/market values for the properties.• Obtained and reviewed the valuation report. Reconciling the values in the report to the values captured in the general ledger as at 31 March 2023.• Performed an analytical review looking at the market value movements from prior year and assessed whether the movements in value are in line with our understanding when referring to available market information. Investigate any movements that are not in line with expectation.• Select a sample of investment property to test. Reperform calculations using assumptions and information obtained from lease rentals, yield rates from external sources to assess if the valuations are appropriate.

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments (private equity, pooled investment vehicles, property funds and unquoted equity) – £2 003.27m	<p>The Pension Fund has investments in unquoted equity and pooled investments vehicles that in total are valued on the net assets statement as at 31 March 2023 at £2 003.27million.</p> <p>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management rely on the valuation that the investment managers provides.</p> <p>The valuation of the funds is provided by the investment managers.</p> <p>Service auditor reports for investment managers and custodians were obtained and considered by management at the pension fund.</p> <p>The value of the investment has increased by £205.6m in 2022/23, this is largely due to sales (£176.2m), purchases (£358.1m), realised gains (£60.9m) and unrealised losses (£31.7m)</p>	<p>Management determine the value of level 3 investments through placing reliance on the expertise of the investment managers. We have performed an assessment of management's expert i.e. Investment manager.</p> <p>In addition to the investment manager confirmations at year end; we have obtained latest audited accounts and reviewed cash flow movements to 31 March 2023.</p> <p>We have also tested a sample of Level 3 investments to audited accounts and final capital statements to determine if the values estimated are reasonable.</p> <p>Please see our findings on page 8.</p>	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments (Directly held property) – £101.8m	<p>The Pension Fund has investments in investment property that in total are valued on the net assets statement as at 31 March 2023 at £101.8million.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>100% of the total assets were revalued during 2022/23. Investment property is revalued annually.</p> <p>The value of investment property has decreased by £18.50m in 2022/23, this is largely due to the change in the market value of the properties.</p>	<p>Management determine the value of investment property through placing reliance on the expertise of the property valuer (Colliers Capital).</p> <p>We evaluated the competence, capabilities and objectivity of the valuation expert</p> <p>We communicated with the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the reporting framework are met</p> <p>We challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, particularly around yields and rents/market values for the properties.</p> <p>Obtained and reviewed the valuation report. Reconciling the values in the report to the values captured in the general ledger as at 31 March 2023.</p> <p>Performed an analytical review looking at the market value movements from prior year and assessed whether the movements in value are in line with our understanding when referring to available market information. Investigate any movements that are not in line with expectation.</p> <p>Selected a sample of investment property to test. Reperformed calculations using assumptions and information obtained from lease rentals, yield rates from external sources to assess if the valuations are appropriate.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £1,069.1m	<p>The Pension Fund have investments in pooled investments that in total are valued on the net assets statement as at 31 March 2023 at £1,069.1million.</p> <p>The investments are valued using the closing bid price where bid prices and offer prices are published or where the funds are index tracked, these are based on the market quoted prices of the underlying securities. As the pooled investments fund invested in are mainly bonds, equities and fixed interest quoted prices are easily obtained in the market.</p> <p>The value of the investment has decreased by £90.9m in 2022/23 due to performance of the funds in the market.</p>	<p>Management determine the value of level 2 investments through placing reliance on the expertise of the investment managers.</p> <p>In addition to the investment manager confirmations at year end; we have independently obtained the quoted price as at year end and compared it to the investment manager's price. Where prices could not be obtained we reviewed the latest audited accounts and reviewed the unaudited valuation to determine if there was significant price movements.</p> <p>We have also tested a sample of level 2 investments to determine if the values estimated are reasonable.</p> <p>No findings have been identified in our testing</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 1 Investments – £2 446.6m	<p>The Pension Fund have investments in pooled investments, cash and other deposits that in total are valued on the net assets statement as at 31 March 2023 at £2 446.6million.</p> <p>The investments are valued using the closing bid price where bid prices and offer prices are published, these are based on the market quoted prices of the underlying securities. As the pooled investments fund invested in are mainly equities and fixed interest quoted prices are easily obtained in the market.</p> <p>The value of the investment has decreased by £57.2m in 2022/23 due to purchases, sales and performance of the funds in the market.</p>	<p>Management determine the value of level 1 investments through placing reliance on the expertise of the investment managers.</p> <p>In addition to the investment manager confirmations at year end; we have independently obtained the quoted price as at year end and compared it to the investment manager's price.</p> <p>We have also tested a sample of level 1 investments to determine if the values estimated are reasonable.</p> <p>No findings have been identified in our testing</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

Assessment


- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Corporate Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund , which is included in the Committee papers.
Audit evidence and explanations	All information and explanations requested from management was provided.
Confirmation requests from third parties	We send confirmation requests to all investment managers. The number of requests sent were 23 and all of these requests were returned with positive confirmation. We are completing our audit procedures in respect of reviewing these confirmations but at the time of drafting this report no matters have been identified.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.

2. Financial Statements: other communication requirements



Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none">the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entitiesfor many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none">the nature of the Pension Fund and the environment in which it operatesthe Pension Fund's financial reporting frameworkthe Pension Fund's system of internal control for identifying events or conditions relevant to going concernmanagement's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none">a material uncertainty related to going concern has not been identifiedmanagement's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	The Pension Fund’s accounts form part of the Council’s financial statements. We are required to read any other information published alongside the Council’s financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority. We will provide the comment once we have completed our work on the Administering Authority’s accounts.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our ‘consistency’ opinion on the Pension Funds Annual Report once we have completed our work on the Administering Authority’s accounts.



3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Grant Thornton International Transparency report 2023](#).

3. Independence and ethics

Audit and non-audit services

The following audit services were identified which were charged in the current financial year, as well as the threats to our independence and safeguards that have been applied to mitigate these threats. Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards.

Service	Fees £	Threats identified	Safeguards
Audit related			
IAS 19 Assurance letters for Admitted bodies	19 200	Self-interest (because this is a recurring fee)	<p>Fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards.</p> <p>Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work. There is fixed charge of £6 000 and 12 IAS 19 letters at £1 100 per response.</p> <p>The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee proposed for this work of £19,200 in comparison to the total fee for the audit of £38,193 and in particular relative to Grant Thornton UK LLP’s turnover overall is low. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.</p>

These services are consistent with the Pension Fund’s policy on the allotment of non-audit work to your auditors. All services have been approved by the Corporate Governance Committee. None of the services provided are subject to contingent fees.

3. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Pension Fund that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Pension Fund held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Pension Fund as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Pension Fund.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Corporate Governance Committee, Pensions Board, senior management or staff that would exceed the threshold set in the Ethical Standard.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Appendices

- A. Communication of audit matters to those charged with governance
- B. Action plan – Audit of Financial Statements
- C. Follow up of prior year recommendations
- D. Audit Adjustments
- E. Fees and non-audit services
- F. Auditing developments

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have not identified any new recommendations for the Pension Fund at this time as a result of issues identified during the course of our 2022/23 audit. We have rolled forward one recommendation from last year in respect journals below £20 000 not being authorised. We recommend automated preventative segregation of duty controls are built into the finance system to prevent transactions being entered and approved by the same user. All journals should be approved by a separate individual regardless of journal value.

C. Follow up of prior year recommendations

We identified the following issues in the audit of Leicestershire County Council Pension Fund's 2021/22 financial statements, which resulted in five recommendations being reported in our 2021/22 Audit Findings Report. We have followed up on the implementation of our recommendations. Three recommendations have been fully addressed and one recommendation not addressed and one partially addressed. Regards our recommendation in respect of IT security covered the Administering Authority with some elements related to Oracle linked to the Pension Fund. We are still awaiting the final report from IT to complete their testing to determine if the IT recommendation has been resolved.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Journal controls-senior officers of the corporate finance team</p> <p>Senior officers have access privileges built into the financial system which allow them to be able to enter journals. As senior officers, this privilege is deemed incompatible with the role, and is an enabler of management override of control.</p>	<p>In our journal entry testing, there were no journals processed by senior officers.</p>
X	<p>Journal controls-lack of segregation of duties</p> <p>The journal entries process does not require approval for entering journals below £20 000. Failure to have a separate prepare and approver for journals could promote fraudulent financial reporting though we note this would require the entering of multiple journal entries below £20 000 for the impact to be material. We note that journal entries entered during the year which were below £20 000 had a combined value which was below £1m hence having a low risk of material misstatement.</p>	<p>We noted that journals below £20 000 have a combined value of £22m were not approved/ authorized. We also note that for such journals access is restricted to specific officers in the central technical accounting team only.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>No evidence of review of assumptions used in the valuation of the Pension Fund's direct property portfolio</p> <p>Colliers Capital is engaged by the Pension Fund as an expert to value the Pension Fund's direct property portfolio. As part of this valuation exercise, Colliers provides the Pension Fund with assumptions to be used in valuing the portfolio. However, as part of the audit we were not provided with evidence of review by the Pension Fund of the assumptions used in the valuation process.</p> <p>Lack of review of these assumptions could result in errors going undetected. Further, lack of review does not evidence that the Pension Fund is taking ownership of the services being provided by the expert by the expert noting that the values provided will be reported by the Pension Fund in the financial statements</p>	Management have utilized internal qualified property valuer to review the valuations.
X	<p>Internal controls reports and bridging letters</p> <p>Fund officers regularly review services provided by Investment Managers and other service providers. As part of this monitoring exercise, management are delegated the task of reviewing investment manager control reports. As part of the audit, we were not provided with the below service organization reports:</p> <ul style="list-style-type: none"> -KKR &Co -Catapult Ventures <p>Matters that could potentially contradict the accuracy of services provided with specific regard to the valuation of investments could go unnoticed where these reports are not reviewed.</p>	From our testing we note some investment managers have issued control reports with the exception of KKR and JP Morgan service organisation reports.

Assessment

- ✓ Action completed
- X Not yet addressed

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>We identified a number of controls issues in security and access of Leicestershire County Council's IT systems that is, Oracle Fusion and Active Directory:</p> <ul style="list-style-type: none">- we noted that there was inadequate control over third party users assigned privileged access to Oracle Identify Cloud Service.- We noted weak password configuration settings for Oracle Fusion.- We noted inadequate controls over batch job management in Oracle Fusion	No such instances were noted in our testing

Assessment

- ✓ Action completed
- X Not yet addressed

D. Audit Adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

No adjusting misstatements have been identified.

Misclassification and disclosure changes

Disclosure	Auditor’s findings	Adjusted?
Investment property	The code requires that the gross rental income and gross direct operating expenses (including repairs and maintenance) arising from investment property be disclosed in the notes. Management has disclosed the net amount in note 11.	Yes
Audit fees	Agreed audit fees disclosed in the SOA were disclosed as £36,793 when the agreed fees is £57,393 Management has agreed to amend the accounts.	Yes
Key management personnel	The contribution rate used was 27.3% instead of 28.30%. Management has updated the contributions payable by the key management personnel using the correct rate	Yes

D. Audit Adjustments continued

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Pensions Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Differences identified between the value of investments disclosed in the financial statements where some of the values are estimates at 31 March 2023 and the valuation statements received from the third party investment managers.	(10,593)	10,593	10,593	Not material quantitatively or qualitatively.
Overall impact	(10,593)	10,593	10,593	

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Differences identified between the value of investments disclosed in the financial statements where some of the values are estimates at 31 March 2022 and the valuation statements received from the third party investment managers. As assets are revalued at 31 March 2023 there is no impact upon the 2022/23 financial statements.	(7,951)	7,951	7,951	Not material.
Overall impact	(7,951)	7,951	7,951	

E. Fees and non-audit services

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee £
Pension Fund Audit	
Scale Fee	22,805
Investment valuation	2,188
ISA 540	3,600
Impact of ISA 315	3,000
Work on triennial valuation member data *	5,000
Derivatives and other complex investments	1,100
Payroll-change of circumstances	500
Subtotal	38,193
IAS 19 Assurance letters for Admitted bodies	19,200
Total audit fees (excluding VAT)	£57,393

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

This impacts audits of financial statement for periods commencing on or after 15 December 2021.

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	<p>The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of:</p> <ul style="list-style-type: none"> the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures the identification and extent of work effort needed for indirect and direct controls in the system of internal control the controls for which design and implementation needs to be assess and how that impacts sampling the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	<p>Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.</p>
Professional scepticism	<p>The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to:</p> <ul style="list-style-type: none"> increased emphasis on the exercise of professional judgement and professional scepticism an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence increased guidance on management and auditor bias additional focus on the authenticity of information used as audit evidence a focus on response to inquiries that appear implausible
Definition of engagement team	<p>The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor.</p> <ul style="list-style-type: none"> Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	<p>The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to:</p> <ul style="list-style-type: none"> clarification of the requirements relating to understanding fraud risk factors additional communications with management or those charged with governance
Documentation	<p>The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.</p>

APPENDIX C

Grant Thornton UK LLP
17th Floor,
103 Colmore Row,
Birmingham
B3 3AG

20th May 2024

Dear Grant Thornton

Leicestershire County Council
Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of Leicestershire County Council for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the Council's financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law. We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the Council's financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or

Corporate Resources

Leicestershire County Council, County Hall, Glenfield, Leicestershire LE3 8RB
Email: resources@leics.gov.uk

Declan Keegan, Director of Corporate Resources

www.leics.gov.uk

disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. The prior period adjustments disclosed in Note 8 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.
- viii. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.
- ix. Except as disclosed in the Council's financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- x. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- xi. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- xii. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xiii. We have considered the unadjusted misstatements schedule, including disclosures included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council. The financial statements are free of material misstatements, including omissions.
- xiv. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xv. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xvi. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:
 - a. the nature of the Council means that, notwithstanding any intention to cease the Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
 - b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
 - c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

- xvii. We have considered whether the Council is required to reflect a liability in respect of equal pay claims within its financial statements. We confirm that we are satisfied that no liability needs to be recognised on the grounds that:
 - a. The Hay Job Evaluation system (which is used across jobs in the Council's main pay grade structure) continues to ensure that there is no significant discrimination in basic pay. This provides significant reassurance that Leicestershire County Council provides fair pay and reward to Council employees.
 - b. We conduct an equal pay audit every three years.
- xviii. We have undertaken a review of all operational Council buildings for instances of reinforced autoclaved aerated concrete (RAAC) and can report that there are no cases of RAAC discovered within any of our maintained schools. However, RAAC was discovered in one vacant office location which has been mitigated following advice from specialist advisors and does not present any significant financial liabilities.

Information Provided

- xix. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.
- xx. We have communicated to you all deficiencies in internal control of which management is aware.
- xxi. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xxii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xxiii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xxiv. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxvi. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxvii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxviii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxix. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Corporate Governance Committee at its meeting on 20 May 2024.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council

APPENDIX D

Grant Thornton UK LLP
17th floor, 103 Colmore Row
Birmingham
B3 3AG

20 May 2024

Dear Sirs

Leicestershire County Council Pension Fund
Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of Leicestershire County Council Pension Fund for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include fairvalue determination for investments held by the fund. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Fund has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

APPENDIX D

- vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- ix. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Fund and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- x. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xi. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xii. We have updated our going concern assessment. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that that :
 - a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
 - b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
 - c. the Fund's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xiii. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Fund via remote arrangements from whom you determined it necessary to obtain audit evidence.
- xiv. We have communicated to you all deficiencies in internal control of which management is aware.
- xv. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xvi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xvii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or

APPENDIX D

- c. others where the fraud could have a material effect on the financial statements.
- xviii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xix. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xx. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.
- xxi. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.
- xxii. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by Leicestershire County Councils Corporate Governance Committee at its meeting on 20 May 2024.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Fund

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Annual Governance Statement (AGS) 2022-23

1. Introduction

Leicestershire County Council (the Council) is responsible for ensuring that its business is conducted in accordance with prevailing legislation, regulation and government guidance and that proper standards of stewardship, conduct, probity, and professional competence are set and adhered to by all those representing and working for and with the Council. This ensures that the services provided to the people of Leicestershire are properly administered and delivered economically, efficiently, and effectively. In discharging this responsibility, the Council must have in place a solid foundation of good governance and sound financial management.

Regulations 6 (1) (a) and (b) of the Accounts and Audit Regulations 2015 require each English local authority to conduct a review, at least once a year, of the effectiveness of its system of internal control and approve an annual governance statement (AGS), prepared in accordance with proper practices in relation to internal control. The preparation and publication of an AGS, in accordance with the CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework' (2016), fulfils the statutory requirement of the Accounts and Audit Regulations. The AGS encompasses the governance system that applied in both the Authority and any significant group entities (e.g. ESPO, EMSS) during the financial year being reported.

2. What is Corporate Governance?

Corporate Governance is defined as how organisations ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest, and accountable manner. The Council's governance framework comprises the systems and processes, cultures, and values by which the Council is directed and controlled. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The Chartered Institute of Public Finance and Accountancy (CIPFA) 'Delivering Good Governance in Local Government; Framework (2016)' sets the standard for local authority governance in the UK and the Council is committed to the principles of good corporate governance contained in the Framework.

The Council has developed, adopted, and continued to maintain a Local Code of Corporate Governance which sets out the way the Council meets the principles outlined in the Framework. [The Code can be found on the LCC internet.](#)

3. Leicestershire's Vision and Outcomes

The County Council's Annual Delivery Report and Performance Compendium 2022 is part of the Council's policy framework and, as such, required the approval of the full County Council at its meeting on 7 December 2022. The documents provide performance data which will help the Council and its partners to ensure services continue to meet standards, provide value for money and that outcomes are being achieved for local people. It is best practice in performance management, and part of the Council's Internal Governance Framework, to undertake a review of overall progress at the end of the year and to benchmark performance against comparable authorities. It is also good practice to produce an annual performance report and ensure that it is scrutinised, transparent, and made publicly available.

The Annual Delivery Report described delivery, progress with implementing agreed plans and strategies, and achievements over the previous 12 months. It largely focused on performance against County Council priorities for community outcomes as set out in its Strategic Plan 2022-26 and other main service strategies. The Report also included information on the financial sustainability and the emergent implications for service demand and

outcomes. [The Performance Compendium](#) outlined the inequity in national funding and the Council's Fair Funding proposals, transformation requirements and national and local service pressures, as well as detailed comparative performance metrics.

The Strategic Plan (2022-26), approved by the County Council on 18 May 2022, provides an important strategic planning framework for the Council which aims to ensure that all service plans and strategies contribute to delivery of the Council's vision for Leicestershire. It has the following five priority outcome themes: -

Our Vision: An inclusive county in which active communities, great connections and greener living enables everyone to prosper, be happy and healthy.				
Strong Economy, Transport & Infrastructure	Improving Opportunities	Keeping People Safe & Well	Great Communities	Clean, Green Future
Leicestershire has a productive, inclusive, and sustainable economy and infrastructure which meets the demands of a growing population and economy.	Every child gets the best start for life with access to a good quality education and everyone has the opportunities they need to fulfil their potential	The people of Leicestershire are safe and protected from harm and have the opportunities and support they need to take control of their health and wellbeing	Leicestershire has thriving, inclusive communities in which people support each other and participate in service design and delivery	The environment is protected and enhanced, and we tackle climate change, biodiversity loss and unsustainable resource usage

4. What the Annual Governance Statement Tells You

The AGS reports on the extent to which the Council has met the requirements of the Local Code of Corporate Governance and the controls it has in place to manage¹ risks of failure in delivering its outcomes. The main aim of the AGS is to provide the reader with confidence that the Council has an effective system of internal control that manages risks to a reasonable level.

The 2022/23 AGS has been constructed by undertaking: -

- A review of the effectiveness of the system of internal control
- Reviewing other forms of assurance
- Action taken on governance issues reported in the 2021/22 AGS
- Significant governance issues arising during 2022/23
- Future challenges

5. Review of Effectiveness of the System of Internal Control

To ensure the 2022/23 AGS presents an accurate picture of governance arrangements for the whole Council, each Director was required to complete a 'self-assessment', which provided details of the measures in place within their department to ensure conformance (or otherwise) with the seven core principles of the Local Code of Corporate Governance.

A senior officers group meets to review the compilation of the AGS. The group comprises

- Director of Law & Governance (the Council's Statutory Monitoring Officer)
- Director of Corporate Resources (the Council's Statutory Chief Financial Officer)
- Head of Democratic Services
- Assistant Chief Executive

¹ It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

- Assistant Director – Assistant Director Finance, Strategic Property & Commissioning
- Assistant Director – Corporate Services
- Head of Internal Audit & Assurance Service

The group has determined that progressing areas identified for development, should be the responsibility of designated Directors and Heads of Service during 2022/23. A review of progressing the implementation of previous years planned developments will be undertaken. Any previous year's developments that were not carried forward into 2022/23 or reported through the Corporate Risk Register process will continue to be monitored.

6. Other Forms of Assurance

The Framework provides examples of policies, systems, and processes that an authority should have in place. Using this guidance, the Council can provide assurance that it has effective governance arrangements. The Council has an approved Local Code of Corporate Governance, and this provides examples of good governance in practice.

The Control Environment of Leicestershire County Council

The Council's Constitution includes Finance and Contract Procedure Rules, a general Scheme of Delegation to Chief Officers. These translate into key operational internal controls such as: control of access to systems, offices, and assets; segregation of duties; reconciliation of records and accounts; decisions and transactions authorised by nominated officers; and production of suitable financial and operational management information. These controls demonstrate governance structures in place throughout the Council.

Internal Audit Service

The Council's Head of Internal Audit & Assurance Service (HoIAS) ensures that internal audit arrangements conform to the requirements of the Public Sector Internal Audit Standards (the PSIAS) revised in 2017. The PSIAS require an external quality assessment every 5 years and the next is planned for the Spring of 2024. The HoIAS also conforms to the governance requirements and core responsibilities of the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2019).

The HoIAS works with the Corporate Management Team to give advice and promote good governance throughout the organisation. The HoIAS leads and directs the Internal Audit Service (IAS) so that it makes a full contribution to and meets the needs of the Authority and external stakeholders, escalating any concerns and giving assurance on the Council's control environment.

There is an Internal Audit Charter mandating the purpose, authority, and responsibility of the internal audit activity. The Charter allows the HoIAS to also be responsible for the administration and development of, and reporting on, the Council's risk management framework. Whilst this does present a potential impairment to independence and objectivity, the HoIAS arranges for any reviews to be overseen by someone outside of the internal audit activity. An independent risk management maturity health check was undertaken during the autumn of 2018 and good progress continues to be made against the recommendations. The next review is planned in the autumn of 2024.

To meet a PSIAS requirement to form an opinion on the overall adequacy and effectiveness of the Council's control environment i.e. its framework of governance, risk management and control, the HoIAS arranges a risk-based plan of audits on a six-monthly basis.

Internal Audit and Assurance reports often contain recommendations for improvements. The number, type and importance of recommendations determines how the auditor reaches an opinion on the level of assurance that can be given that controls are both suitably designed and are being consistently applied, and that material risks will likely not arise. The combined assessment of individual audit opinions and other assurances gained throughout the year (e.g. involvement in governance groups, attendance at Committees, evaluations of other assurance providers), facilitate the HoIAS in forming the annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment. The HoIAS presented his annual report to Corporate Governance Committee on 26 May 2023 and his opinion read: -

Whilst the IAS staff group encountered some long unplanned absences, there was considerably less disruption from Covid-19, the benefit from pulling back from academy provision was noticeable and overall

the resource base was at its strongest for a number of years. The HoIAS considers there was sufficient input across the control environment to be able to give a full opinion. Assurance was supplemented by good relationships with senior management and transparency over reporting significant governance issues in the provisional draft Annual Governance Statement and providing detailed updates to risk positions in the Corporate Risk Register. Three audits returning partial assurance ratings were reported to Committee during the year and there were some minor fraud investigations, but management accepted and responded to recommendations. Overall, reasonable assurance is given that the Council's control environment has remained adequate and effective.

Risk Management

The Corporate Governance Committee has a responsibility to ensure that an effective risk management system is in place. Risk management is about identifying and managing risks effectively, helping to improve performance and aid decision making relating to the development of services and the transformation of the wider organisation. Regular reports and presentations on specific strategic and corporate risks to the Council are provided to the Corporate Governance Committee.

The Council's Risk Management Policy and Strategy (which provide the framework within which risks can be managed) were reviewed, revised, and approved by the County Council in February 2023.

Overview and Scrutiny

The cross-party overview and scrutiny function monitors the County Council's financial performance and performance against targets in the Strategic Plan and other related plans on a regular basis. This work is carried out by the Scrutiny Commission and five Overview and Scrutiny Committees which each has responsibility for scrutiny of a particular service area of the Council.

The key areas of activity undertaken by the Scrutiny Commission and the five service-related Overview and Scrutiny Committees during the year included:-

- Provisional Revenue and Capital Outturn 2021-22
- The budget and regular Medium Term Financial Strategy performance monitoring updates
- Annual Reports for 2021-22 on the Commercial Strategy, Corporate Complaints and Compliments, Corporate Delivery and Performance Compendium, the work and performance of the Leicester and Leicestershire Enterprise Partnership and East Midlands Shared Services.
- Leicestershire County Council Community Safety Strategy 2022-26
- Leicestershire Domestic Abuse Reduction Strategy 2022-25
- Corporate Asset Investment Fund Performance for 2021-22 and the Strategy for 2023 - 27
- Corporate Asset Management Plan 2022-26
- SEND Services, SEND Transport and related Finance Pressures
- School admissions
- Corporate Parenting
- Child Criminal Exploitation
- Learning Disability Employment Performance
- Commissioning and Procurement of Homecare Services and the Procurement of Community Life Choices
- Leicester, Leicestershire and Rutland Carers Strategy 2022-25
- Net Zero
- Tree Management and Water Management performance and challenges
- Healthy Child Programme
- Highways and Transport Cabinet Works Programme
- North and Eastern Melton Mowbray Distributor Road Cost Implications
- Leicestershire Highway Design Guide Refresh
- Primary Health Care pressures post Covid-19
- Urgent and Emergency Care performance
- Cancer Performance

The challenge provided by the overview and scrutiny function has continued to be crucial in shaping Council policy and helping to ensure the delivery of efficient, high-quality services. An annual report which summarises the work undertaken during 2022/23 will be published in summer 2023.

Corporate Governance Committee

The Corporate Governance Committee is responsible for promoting and maintaining high standards of corporate governance within the Council and receives reports and presentations that deal with issues that are paramount to good governance.

With regard to the promotion and maintenance of high standards of conduct by members and co-opted members within the County Council, the decisions and minutes of the Member Conduct Panel which meets as required are available on the internet.

The Monitoring Officer submits an annual report to the Corporate Governance Committee on the operation of the Members' Code of Conduct and arrangements for dealing with complaints.

Since July 2021 there have been eight complaints (relating to six members) received by the Monitoring Officer under the Members' Code of Conduct. These complaints were resolved as set out below:

- 3 complaints (2 in relation to one member from the same complainant) were considered to be outside of the scope of the Code;
- 2 complaints did not meet the threshold for further investigation as set out in the scope of the code of conduct.
- 2 complaints were resolved informally.
- 1 complaint was considered by the Member Conduct Panel and was subject to an independent investigation following which there was no further action in light of a finding that there had been no breach of the Code.

During 2022/23 the Committee has provided assurance that: an adequate risk management framework is in place; the Council's performance is properly monitored; and that there is proper oversight of the financial reporting processes. The table below provides summary information of other key business considered by this Committee during 2022/23 to support the above.

- Quarterly Risk Management Updates and the Risk Management Policy & Strategy
- Indicative External Audit Plan and Audit Risk Assessment 2021/22), External Audit of Statement of Accounts, Pension Fund Accounts and Annual Governance Statement 2021/22; External Audit Plan 2022/23
- Quarterly Treasury Management updates, Changes to Annual Investment Strategy to add to list of Acceptable Investments, Treasury Management Strategy Statement and Annual Investment Strategy 2023/24
- Proposed amendments to the Contract Procedure Rules, and contract exceptions for the period 1 July 2021 to 30 June 2022
- Internal Audit Service progress reports including status of High Importance recommendations; planning for an External Quality Assessment
- East Midlands Shared Service – Internal Audit work undertaken by Nottingham City Council
- Local Code of Corporate Governance
- Governance Arrangements for External Bodies
- Government driven developments in local (external) audit arrangements and update reports
- Revised Members' Planning Code of Good Practice.
- CIPFA Financial Management Code 2021/22
- CIPFA Audit Committee Guidance
- Annual Reports:
 - Treasury Management Annual Report 2021/22
 - Internal Audit Service Annual Report 2021/22 including an opinion on the control environment
 - Annual Report on the Operation of the Members' Code of Conduct 2021/22
 - Clinical Governance Annual Report 2021/22
 - Local Government and Social Care Ombudsman Annual Review 2021/22 and Update on Corporate Complaints and Freedom of Information Requests
 - Resilience and Business Continuity Annual Update
 - Regulation of Investigatory Powers Act 2000 (RIPA) and Investigatory Powers Act 2016 for the period 1 January to 31 December 2022

At its meeting in November 2022, the Committee considered revised membership and terms of reference for the Corporate Governance Committee contained in Part 2 and Part 3 of the Council's Constitution respectively. It specifically supported proposals to appointment up to two Independent Members to the Committee in accordance with CIPFA best practice guidance. This was subsequently supported by the Constitution Committee and approved by the County Council in December 2022. An appointment process began in March with an aim to interview and appoint two Independent Members in May 2023, such appointments being subject to approval by the County Council at its meeting in July 2023.

The Chief Financial Officer (CFO)

The Director of Corporate Resources undertakes the statutory role of the Chief Financial Officer (CFO) for the Council. The CFO conforms to the governance requirements and core responsibilities of two CIPFA Statements on the Role of the Chief Financial Officer; in Local Government (2016) and in the Local Government Pension Scheme (2014). The CFO is a key member of the Corporate Management Team and is able to bring influence to bear on all material business decisions, ensuring that immediate and long-term implications, opportunities, and risks, are fully considered and in alignment with the MTFS and other corporate strategies. The CFO is aware of, and committed to, the five key principles that underpin the role of the CFO and has completed an assurance statement that provides evidence against core activities which strengthen governance and financial management across the Council.

The Financial Management Code

The CIPFA Financial Management Code translates the principles of good financial management into seven Financial Management Standards. These standards address the aspects of an authority's operations and activities that must function effectively if financial management is to be undertaken robustly and financial sustainability is to be achieved.

In January 2023, the Council completed a self-assessment of its compliance with the requirements of the Financial Management Code for 2021-22. The assessment showed that the County Council met the requirements of the Code with some small improvements required. The Internal Audit Service undertook a high-level review of the self-assessment against the Code, and a copy of the assessment was reported to the Corporate Governance Committee in January 2023.

Local (External) Audit

The Council's local (external) auditors, Grant Thornton LLP, presented the findings from their planned audit work to 'those charged with governance' at the Corporate Governance Committee on 16 March 2023.

The Auditor's Annual Report (AAR)

The Auditor's Annual Report (AAR) is a detailed review of the value for money (VfM) arrangements at the Council. The report covered five areas. These were financial sustainability; governance; improving economy, efficiency, and effectiveness, the opinion on the financial statements and pension fund arrangements. Overall, the auditor's report was very positive. The external auditor concluded that the Council has a good track record of sound financial management, had appropriate arrangements in place to manage the financial resilience risks, has a clear and documented governance framework in place and a well-developed performance management framework. No significant weaknesses were reported.

Opinion on the Financial Statements

The auditor gave an 'unqualified' opinion on the 2021/22 financial statements for the County Council and its Pension Fund on 16 March 2023 meaning that the external auditor is satisfied that the financial statements present a true and fair view.

Annual Audit Plan for the 2022/23 Accounts

Informing the Audit Risk Assessment and Audit Plan is scheduled to be reported to Corporate Governance Committee at its meeting on 26 May 2023.

The Monitoring Officer

The Director of Law & Governance undertakes the statutory role of Monitoring Officer (MO) for the Council. The MO has responsibility for:

- ensuring that decisions taken comply with all necessary statutory requirements and are lawful. Where in the opinion of the MO any decision or proposal is likely to be unlawful and lead to maladministration, he/she shall advise the Council and/or Executive accordingly,
- ensuring that decisions taken are in accordance with the Council's budget and its Policy Framework,
- providing advice on the scope of powers and authority to take decisions.

In discharging this role, the MO is supported by the Deputy Monitoring Officer and officers within the Legal and Democratic Services Teams.

Senior Information Risk Owner

The Assistant Director - Corporate Services undertakes the role of Senior Information Risk Owner (SIRO) for the Council. The SIRO takes overall ownership of the Council's approach to handling information risk. Sound governance is in place, with regular update and exception reports to the Corporate Management Team. The responsibilities of a SIRO include:

- owning the Council's policies, procedures, and processes around information risk, ensuring they are implemented consistently across the Council.
- ensuring compliance with all other policies and procedures relating to information and data.
- acting as a champion on information risk and report to Chief Officers on the effectiveness of risk management.
- leading and fostering a culture that values, protects, and uses information for the success of the Council and benefit of our citizens.
- ensuring that information owners understand their roles.
- ensuring that the Council has a plan to monitor and improve information and data governance.
- maintaining expertise in Data Protection and other legislation that impact on Information and Data Governance; and
- owning the Council's information incident management framework

Commercial and Collaborative Arrangements

Commercial

ESPO is constituted as a joint committee (of six local authorities) set up to provide a comprehensive professional purchasing service to public sector bodies. It is overseen by a Management Committee which has overall strategic responsibility for ESPO. At its meeting on 22 March 2023, the Committee approved changes to the Finance and Audit Subcommittee (the Subcommittee) Terms of Reference, and the Risk Management Policy which provided delegated powers over Internal Audit, External Audit, Risk Management, and the Annual Governance Statement. Internal audit is undertaken by the Council's Internal Audit & Assurance Service as part of the servicing agreement. Like the County Council, the HoIAS presents an annual report to the Subcommittee at its meeting in October. The annual report incorporates the annual internal audit opinion, which for 2022-23 was as follows:

No significant governance, risk management or internal control failings have come to the HoIAS' attention therefore substantial assurance is given that ESPO's control environment overall has remained adequate and effective. **ESPO Trading Ltd** ESPO's power to trade is restricted to a limited number of public bodies. The establishment of a trading company allows ESPO (Trading) to trade with other organisations – e.g. Care Homes, Nurseries, Housing Associations, Charities and Voluntary Organisations. The Trading is governed under the Companies Act 2006, its Articles of Association and Shareholder Agreement.

Eduzone is a private limited company that supplies Early Years educational products and Early Years furniture to schools, nurseries, and child minders. ESPO acquired the company following the necessary due diligence in 2018. Eduzone has now been incorporated into ESPO Trading Limited.

The **Investing in Leicestershire Programme** (formerly the Corporate Asset Investment Fund (CAIF) Strategy 2022/2026) guides the Council's investments in assets not directly used for the delivery of its services, but which contribute to the outcomes of the Council's Strategic Plan and financial return. The Strategy requires reporting to various member bodies. Reporting on the financial performance is included in the budget monitoring reports on a quarterly basis. The CAIF Annual Report for 2021/22 was received by the Scrutiny Commission on 7 September 2022. The CAIF Strategy has been revised to be compliant with the updated CIPFA Code from 2023/24. In light of the CIPFA Code, the County Council will continue to ensure that it will only undertake investments where they are directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose. This includes service delivery, housing, and regeneration of areas, which addresses areas of economic or social market failure and should only be made within the Council's area of economic influence. Renewable energy generation is also included as a reduction in carbon emissions is a stated aim of the County Council as part of its Declaration of a Climate emergency in May 2019.

The Council also has a trading arm **Leicestershire Traded Services (LTS)**, which sits within the Corporate Resources Department. Its activities are overseen by an Officer Board. The quarterly financial and performance reports include the performance of the LTS as part of the Corporate Resources Department and these reports are considered by various member bodies. The Annual Report on the Commercial Strategy 2021/22 was received by the Cabinet on 24 June 2022.

Collaborative

East Midlands Shared Service (EMSS)

EMSS is constituted under Joint Committee arrangements to process payroll/HR and accounts payable and accounts receivable transactions for Leicestershire County Council and Nottingham City Council. The internal audit of EMSS is undertaken by Nottingham City Council.

At the Joint Committee on 18 March 2024, it was reported that, 'On the basis of audit work undertaken during the 2022-23 financial year, the Head of Internal Audit (HoIA) at Nottingham City Council concludes that a "limited" level of assurance can be given that internal control systems are operating effectively within EMSS and that no significant issues had been discovered. Whilst the direction of travel for the four audits, from 2021/22 to 22/23 has varied, the overall movement over the year is not sufficient to warrant a "moderate" level of assurance. That said, we would fully expect the opinion to improve for 2023/24'.

The position with Nottingham City Council issuing a s114 notice and the appointment of Government Commissioners is being monitored.

Local Pension Fund

Leicestershire County Council is a scheme manager as defined under the Public Service Pensions Act 2013 and any associated legislation). The County Council has delegated the responsibility for decisions relating to the investment of the Fund's assets to the Local Pension Committee. Membership consists of Councillors from the County, City and District Council together with one university representative and non-voting employee representatives.

The Local Pension Committee's principle aim is to consider pensions matters with a view to safeguarding the interests of all Fund members. The Members who sit on the Committee act on behalf of the beneficiaries of the LGPS and in this way have a similar role to trustees in primarily protecting the benefits of the LGPS members, overseeing the direction of investments and monitoring liabilities.

On 3 March 2023, the Local Pension Committee approved a Net Zero Climate Strategy.

The Local Government Pension Scheme (LGPS) Regulations require that Leicestershire County Council in its capacity as Administering Authority establishes a Local Pension Board. The purpose of the Board is to assist the Authority in securing compliance with the Regulations, other legislation relating to the governance and administration of the LGPS, the requirements imposed by the Pension Regulator in relation to the LGPS and to ensure the effective and efficient governance and administration of the LGPS.

The Local Pension Board comprises of employer representatives who are all elected members from the County Council and Leicester City Council and employee representatives. The Administering Authority retains ultimate responsibility for the administration and governance of the Scheme.

Local Government Pension Scheme (LGPS) - Central Pool.

The LGPS Central pooled investment arrangements became operational on 1 April 2018. A range of collaborative governance vehicles has been established.

The Council is joint owner of LGPS Central Limited which manages the pooled assets of eight Midlands-based local government pension schemes, including Leicestershire. LGPS Central Limited is authorised and regulated by the Financial Conduct Authority as an asset manager and operator of alternative investment funds. It has combined assets of approximately £30bn which represents the assets of over 2,000 employing bodies which help to pay for the costs of pensions when they become payable.

The Company aims to use the combined buying power of its Partner Funds to reduce costs, improve investment returns and widen the range of available asset classes for investment for the benefit of local government pensioners, employees, and employers.

Member representatives of each of the funds sit on the LGPS Central Joint Committee which provides oversight of the delivery of the objectives of the pool, the delivery of client service, the delivery against the LGPS central business case and to deal with common investor issues. The joint committee provides assistance, guidance, and recommendations to the individual councils, taking into consideration the conflicting demands and interests of the participants within the pool. The joint committee does not have delegated authority to make binding decisions on behalf of the participating councils.

An annual update on Internal Audit arrangements was provided to the Council's Local Pension Board in April 2023. This included a summary of work completed during 2022/2023 and work planned for 2023/2024. The internal audit functions of the eight LGPS owners have formed an Internal Audit Working Group (IAWG) and agreed a four-year internal audit plan of work from 2019/20 to 2022/23. Audits for the final year of the four-year plan, i.e. 2022/23 audits were assigned to Cheshire West & Chester (Governance) and Derbyshire County Council (Investments). Following completion of these, the four-year cycle will re-start.

In May 2023, the Chief Executive Officer resigned. The Deputy Chief Executive Officer will become Interim CEO while the Board searches for a permanent successor.

Active Together

The Director of Public Health represents the Council and is Chair of the Active Together Board of non-executive directors. There are defined terms of reference which set out the governance arrangements and key tasks of the Board. Underneath the Board is a number of subgroups (drawn from the Board and co-opted others) to provide additional scrutiny of areas of the business.

One of those sub-groups in the 'Business, Oversight and Audit' Committee which oversees business planning, financial and risk reporting, and reports to the Board quarterly. The Assistant Director - Delivery in Public Health is a member of this committee.

Leicester and Leicestershire Enterprise Partnership (LLEP)

The LLEP is a private company limited by guarantee (Company No: 11932434).

LEPs are non-statutory bodies and as such require an Accountable Body to manage funding from Government. Leicester City Council is the Accountable Body to the LLEP.

The Accountable Body, through its Section 151 Officer, is responsible for ensuring that statutory requirements are met in resource allocation decisions and that the public interest is protected. It provides financial and legal support and takes the ultimate legal and financial responsibility for the LLEP's activities.

Mr P Bedford CC represents Leicestershire County Council on the LLEP Board of Directors.

In October 2023, the LLEP held its AGM and produced its Annual Report 2022/2023. In September 2021 it reviewed its Local Assurance Framework to ensure compliance with a refreshed National Assurance Framework.

The Chief Executive left in March 2022 and the role was held vacant pending greater clarity on the future role of the LLEP. The new CEO was appointed in March 2023 and took up post in May 2023.

At the end of March 2022, the Government issued guidance on integrating Local Enterprise Partnerships into local democratic institutions which it had introduced in its Levelling Up White Paper and has subsequently consulted stakeholders on ending Government funding to LEPs from the end of March 2024. The decision to end funding was confirmed by the Government in August 2023 and a Transition Board, set up by the LLEP and including a Council officer, is overseeing the transfer of LLEP functions and funds on 1/4/24 to the two upper tier local authorities (Leicester City Council and the County Council) who are considering future governance and business voice arrangements together with delivery priorities. It has been agreed that Leicester City Council will continue as the accountable body. Discussions are also underway to include at a later date Rutland Council in the new arrangements.

The Chair of the Board of Directors stepped down in April 2022 and has been replaced by two Co-Chairs who were previously vice-chairs.

The 2021/22 Annual Performance Review was assessed by the Department for Levelling Up, Housing and Communities (DLUHC). The DLUHC assessment found that the Government's expectation for governance and Strategic Impact had been met. However, concerns were identified in Delivery, essentially around delays to schemes allocated funding from the Getting Building Fund. These schemes continue to be delivered in 2022/23.

Integrated Care Systems (ICS) & Integrated Care Partnership (ICP)

ICSs are partnerships that bring together NHS organisations, and upper tier local authorities across NHS footprint of Leicester, Leicestershire, and Rutland (LLR).

The ICP is a statutory committee jointly formed between the Integrated Care Board (ICB) and all upper-tier local authorities that fall within the ICS area. LCC membership includes the Lead member for Health and Wellbeing, the Director of Public Health, the Director of Adult Social Services and the Director of Children and Family Services.

The ICP is responsible for producing an integrated care strategy on how to meet the health and wellbeing needs of the population in the ICS area.

The ICB is also a statutory body and is a successor to the 3 Clinical Commissioning Groups (CCGs). The Director of Public Health represents LCC on the ICB, though in an ex officio capacity not as a representative of the Council as a decision-making body, in accordance with NHS requirements.

In June 2023, the Government published a response to the House of Commons Health and Social Care Committee's report on 'ICSs: autonomy and accountability'. As a result it is likely that the boundaries of the LLR ICS may change in a 'strategic alliance' with a neighbouring area.

Leicestershire Health and Wellbeing Board

Health and Wellbeing Board acts as a forum in which key leaders from the local health and care system work together to improve the health and wellbeing of the local population and plan how to tackle inequalities in health. This is best achieved by a range of organisations working together and as a result, the Leicestershire Health and Wellbeing Board brings together key organisations: the ICB, District Representatives, NHS England, University Hospitals of Leicester NHS Trust, Leicestershire Partnership NHS Trust, Leicestershire Police, Office of the Police and Crime Commissioner and Healthwatch to ensure patients and service users voices are heard. The Health and Wellbeing Board is chaired by the Council's cabinet lead for Health and the other Council representatives are:

- Lead Members for Adult Social Care & Children & Young People
- The Chief Executive
- The Directors of Public Health, Adults & Communities and Children & Family Services

The Health and Wellbeing Board leads and directs work to improve the health and wellbeing of the population of Leicestershire through the development of improved and integrated health and social care services by: -

- Identifying needs and priorities across Leicestershire (the Place), and publishing and refreshing the Leicestershire Joint Strategic Needs Assessment (JSNA) and Pharmaceutical Needs Assessment so that future commissioning/policy decisions and priorities are based on evidence.
- Preparing and publishing a Joint Health and Wellbeing Strategy and Plan on behalf of the County Council and its partner clinical commissioning group(s) so that work is done across the Place to meet the needs identified in the JSNA in a co-ordinated, planned, and measurable way
- In conjunction with all partners, communicating and engaging with local people in how they can achieve the best possible quality of life and be supported to exercise choice and control over their personal health and wellbeing
- Approving the Better Care Fund (BCF) Plan including a pooled budget used to transform local services, so people are provided with better integrated care and support together with proposals for its implementation
- Having oversight of the use of relevant public sector resources to identify opportunities for the further integration of health and social care services within the Place.

The BCF is reported quarterly regionally and nationally via NHS England (NHSE) and the Local Government Association (LGA) via a nationally prescribed template which is approved quarterly by the Board, a process supported operationally by the Integration Executive. The annual BCF plan is also submitted via NHSE/LGA regionally and nationally and is subject to a prescribed national assurance process against a number of national conditions, metrics, and financial rules.

The 2022/23 BCF Policy Framework was published in July 2022 and updated in November 2022.

The annual submission for the 2022/23 financial year was approved by the Health and Wellbeing Board at its meeting on 1 December 2022, subsequent to its submission to NHS England which was done using the Chief Executive's delegated powers in order to meet the deadline submission date of 26 September 2022 (The Integration Executive, a subgroup of the Health and Wellbeing Board with responsibility for the day to day delivery of the BCF, considered the draft BCF Plan 2022/23 at its meeting on the 6 September 2022 and supported its contents). The completed year end BCF 2021-22 template, which demonstrates progress against integration priorities and BCF delivery, was approved for submission to NHS England by the Health and Wellbeing Board at its meeting on 26 May 2022. The work of the Health and Wellbeing Board is reported in an annual report and is also reported in the annual reports of Clinical Commissioning Groups (CCGs).

East Midlands Freeport

Freeports are a flagship Government programme that will play an important part in the UK's post-COVID economic recovery and contribute to realising the levelling up agenda, bringing jobs, investment, and prosperity to some of the most deprived communities, with targeted and effective support. The East Midlands Freeport (EMF) is the UK's only inland Freeport and features three main 'tax sites' straddling three East Midlands counties. The EMF brings together a mix of industries, businesses, and other collaborating partners, combining public and private sector expertise.

Work to develop a Business Case began in 2021 and tax site designation was awarded by HM Treasury in March 2022. The Full Business Case was submitted to Government in mid-April 2022 and full designation has been approved. The Cabinet approved the County Council becoming a member of the newly incorporated Freeport Company, with the Leader as a nominated member to serve on the Board (now Mr Breckon), and to continue the role of lead authority and accountable body for the Freeport. In June 2022, a non-executive Chair of Board was appointed. A Chief Executive started in post in March 2023 and has put together a small team to implement delivery of the Business Plan objectives of the Freeport (EMF), working with the Chair and Board and co-ordinating with stakeholders, business partners and Government Departments to ensure the EMF fulfils its ambitions and obligations.

East Midlands Development Company (DevCo)

The County Council is a Board member of the DevCo, a company limited by guarantee from April 2021. Its ambition is to be a locally led urban development corporation or a mayoral development corporation, for which there is provision in the Levelling Up and Regeneration Act. The County Council is one of five member authorities / owners of the DevCo. Separately, the County Council is concerned to ensure that the DevCo's Members' Agreement and Grant Agreement are correctly followed, which it does not believe has been the case. In that connection, exempt reports have been made to the Cabinet (May and September 2022 and June 2023) while the Council's membership has been paused. The Council is still waiting for a satisfactory response

to its concerns which have been fully set out to the DevCo. The Council's concerns have been noted by our external auditor. The DevCo does not have an accountable body. The DevCo Board is now considering options as to its future, including disbandment or hibernation until the outcome of the 'East Midlands' mayoral election in May 2024 is known.

Environmental & Waste Collaborations

The County Council through the Environment and Transport Department is partner in a number of environment and waste collaborations and acts as Key Partner in

- Charnwood Forest Regional Park Board - a partnership of local authorities, agencies, user groups and land management organisations, working to manage and promote the unique cultural and heritage features of the area;
- Charnwood Forest Landscape Partnership Scheme Steering Group - an officer led group that oversees the delivery of the National Lottery Heritage Fund funded Landscape Partnership Scheme;
- Air Quality and Health Partnership - Led by Public Health and involving all districts. Responsible for overseeing delivery of the Action Plan to address air quality issues across the county;
- Local Nature Recovery Strategy Steering Group - an officer led group with Leicestershire County Council acting as the 'responsible authority for the development of a Local Nature Recovery Strategy for Leicestershire, Leicester and Rutland as part of a new statutory duty set out in the Environment Act 2021

Enhanced Bus Partnership

This is a partnership between the County Council and the bus operators and is enabled by the 2017 Bus Services Act and Transport Act 2000, so has a legal status, but is not mandatory. Local authorities which wanted to bid for funding had to establish a partnership and therefore every top tier authority has one (unless they have bus franchising).

7. Action Taken on Governance Issues Reported in the 2021/22 AGS

The Council has defined a 'significant governance issue' as one that is intended to reflect something that has happened in the year, or which is currently being experienced and meeting any of the following criteria:

- A. The issue has seriously prejudiced or prevented achievement of a principal objective of the authority;
- B. The issue has resulted in a need to seek additional funding to allow it to be resolved or has resulted in significant diversion of resources from another aspect of the business;
- C. The issue has led to a material impact on the accounts;
- D. Corporate Governance Committee has advised that the issue should be considered as a 'significant' issue for reporting in the AGS;
- E. The Head of Internal Audit Service has reported on the issue as significant, for reporting in the Annual Governance Statement, in the annual opinion on the internal control environment;
- F. The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation;
- G. The issue has resulted in formal action being taken by the Chief Financial Officer and/or Monitoring Officer;
- H. The issue has resulted in a Legal breach;
- I. The issue prompts intervention from a regulator.

Progress that has been made in dealing with the governance issues that were identified in the 2021/22 final AGS are detailed below:

Issue /Area for Improvement (AGS) 2021/22	Lead Officer and Date	Progress during 2022/23
SEN Budget Deficit The High Needs Block of the Dedicated Schools Grant remains under significant pressure with an in-year deficit of £10.9m for 2022/23 and a cumulative deficit of £39.7m which is forecast to increase significantly in future years. Increase in demand is also resulting in higher expenditure on the SEND home to school transport budget. The Authority is also experiencing an increasing number of appeals and complaints demand for Leicestershire is participating in the Department for Education's Delivering Better Value in SEND programme. The Authority has entered into a Strategic Partner contract with Newton Europe to deliver the Transforming SEND and Inclusion in Leicestershire (TSIL) programme to create a sustainable SEND system and will align with the DBV programme providing expertise on SEND issues.	Director of Children & Family Services Reviewed April 2023	<ul style="list-style-type: none"> 2022/23 in year deficit reduced to £6.7m with a cumulative deficit of £35.5m. The Department for Education, through the Delivering Better Value in SEND programme has provided funding of £1m to assist in delivering sustainable change in SEN provision. The Authority continues to work with Newton Europe in delivering the TSIL programme. Updates on the issue are received by the Corporate Governance Committee within the Risk Management Update reports.
Firs Farm – environmental damage and rectification A farm estate owned and let by the Council where large amounts of potentially hazardous waste had been allegedly left by a former tenant.	Director of Corporate Resources Review April 2023	<ul style="list-style-type: none"> Following the evaluation of tenders, a contract was awarded to a leading remediation specialist company at a cost of just over £2.1m plus a £50k contingency to deal with the slurry pit on site. It is hoped that this latter amount will not be needed after

Issue /Area for Improvement (AGS) 2021/22	Lead Officer and Date	Progress during 2022/23
<p>A remediation strategy for the farm has been agreed with the Environment Agency. The Council has tendered for the removal and proper disposal of the waste on the farm and reinstatement of the farmland which could incur costs of over £2.4m. The Council's insurance does not cover the type of environmental or illegal waste disposal undertaken on the farm.</p>		<p>testing is carried out. The evaluation panel was satisfied the tender meets the Council's requirements. The Environment Agency has been consulted throughout the process.</p> <ul style="list-style-type: none"> Update: January 2024. Contracted works on site are largely complete, with only a small volume of waste awaiting Environment Agency problematic waste approval. The clearance and remediation contract has come in on budget. The Environment Agency criminal investigation continues. Awaiting clarification from the Animal and Plant Health Agency (APHA) on slurry pit waste. The farmland is currently being marketed for rental for an initial two year tenancy.
<p>Early Years Budget Deficit</p> <p>A £4.2m deficit on the Early Years' budget was identified at the end of the 2021/22 financial year due in part to errors in the completion of the Council's annual Early Years census) since 2020 leading to reduced grant payment to the Council.</p> <p>Representations with the DfE to have the census corrected have proven unsuccessful, and alternative plans are being put into place to recover the deficit. Internal Audit work identified a number of lessons learned and recommendations for process improvement will be shared with management for consideration and implementation.</p>	<p>Director of Children & Family Services</p> <p>Reviewed April 2023</p>	<ul style="list-style-type: none"> The 2023/24 uplift for providers has been set so that the deficit will be gradually reduced over 4 years All providers who had an initial payment for the Spring term 2023 returned their January Census data which was verified across services Before the January data was submitted all data was cross referenced to check for anomalies and errors An Early Years Steering Group has been implemented, with appropriate representation from CFS/Corporate Finance and TU to look at an 'as is' and 'to be' process with the intention to further strengthen the process
<p>Local Government & Social Care Ombudsman (LGSCO) report – Social Care Assessments</p> <p>In September 2022, the Local Government and Social Care Ombudsman (LGSCO) issued a report following its investigation into a complaint that the Council had failed to properly undertake a social care assessment and provide support for eligible care needs.</p>	<p>Director of Adults & Communities</p> <p>March 2023</p>	<ul style="list-style-type: none"> All recommendations completed and reported to LGSCO in February 2023. Notification received from LGSCO that they were satisfied with response.

8. Significant Governance Issues Arising During 2022/23

This Annual Governance Statement (AGS) identifies that the Council has effective arrangements in place, but that its officers recognise the need to continuously review, adapt and develop governance arrangements to meet the changing needs of the organisation. Whilst the Council has identified areas to be developed (Annex), it is important to recognise that there are two significant matters set out in the table below.

Significant Governance Issue 2022/23	Lead Officer and Date
<p>School Admissions</p> <p>LCC has a duty to provide details of school places allocated on “National Offer Day” (March 1st for primary to secondary transfers). This year was the first time this process was undertaken with the new Synergy system, which holds and processes the applications in conjunction with a parent portal. There were some difficulties in establishing a new process with this system. Parents were told, as in previous years, that offer information would be available from midnight. As a result of some technical configuration issues the information was not available on the portal. In addition to this, for a short period the portal was also unavailable. On the morning of 1st March, parents were sent a letter with the details of school place offer. Apart from a very small number of parents, where information had not been exchanged with a neighbouring authority all parents received their offers on March 1st, however the standard of communication did not meet expectations.</p> <p>The next phase transfer round (first time primary applications) ran smoothly. A longer-term clear process map with monitoring and checkpoints was executed and additional specialist IT support was employed.</p>	<p>Director of Children & Family Services</p> <p>Issue Closed</p>
<p>SEND OfSTED re-visit</p> <p>Ofsted and CQC undertook the Leicestershire Local Area SEND Inspection in February 2020 and found a number of strengths and areas for improvement, with two areas identified within a Written Statement of Action. These two areas related to the lack of an overall SEND Commissioning Strategy across the partnership and the need to improve the Quality of EHC Plans.</p> <p>The SEND reinspection took place from 14 to 16 November 2022 and focused only on the two areas identified for the Written Statement of Action. The report, dated 13 December 2022, found that sufficient progress had been made with regards to Joint Commissioning Strategy for SEND but that further progress is needed regarding the Quality of EHC Plans. The inspection team (again made up of Ofsted and CQC) did find that improvements had been made in newer plans but were concerned that too many plans remained in the pre-2020 format and also that timeliness for the completion of plans had slipped, affecting parental confidence in the system.</p> <p>Following the outcome of the revisit the Local Area (Local Authority and the Integrated Care Board (ICB) produced an Accelerated Progress Plan (APP) to set out how improvements in quality of education health and care plans would be made. The APP focusses upon three areas identified as critical in improving the quality of EHC Plans; processes around initial EHC Needs Assessment, processes around Annual Reviews and our Quality Assurance/Audit Framework.</p> <p>Progress on the APP is monitored by senior health and LA managers on a weekly basis, with a formal meeting with the, SEND Hub, Health and DfE on a bi-monthly basis. Formal monitoring has taken place by the DfE at 6 monthly periods.</p> <p>Progress against the actions in the plan has been good, with a clear focus on improving the quality of education health and care plans. Timeliness of completing EHCP remains a significant challenge and remains below the target of 20 weeks. Work continues to take place in the Department to improve timeliness with a</p>	<p>Director of Children & Family Services</p> <p>January 2024</p>

particular focus on increasing Educational Psychologist availability to complete the advice part of the EHCP assessment.

The APP is overseen by the SEND and Inclusion Board which is a multi-agency partnership that reports to the Health and Wellbeing Board.

The Council has identified areas to be developed which are reported in the Annex to the AGS.

The Code of Practice on Local Authority Accounting in the UK 2022/23, requires that significant events or developments relating to the governance system that occurred between the Balance Sheet date, (31 March), and the date on which the Statement of Accounts will be signed by the responsible financial officer, are reported. The draft AGS was updated in line with the Code of Practice.

9. Future Challenges

Significant challenges faced by the Council such as the continuing economic and health and wellbeing impacts of covid-19, continuing funding shortfalls, driving further Health and Social Care integration, social care reform etc are detailed within the Corporate Risk Register, which is regularly reviewed by the Corporate Management Team and presented to the Corporate Governance Committee (the Committee). Managing these risks adequately will be an integral part of both strategic and operational planning; and the day to day running, monitoring, and maintaining the Council. The most recent update of the Corporate Risk Register was received by the Committee at its meeting on 27 January 2023.

Additional challenges continue to emerge, and key areas in particular are:

Financial Sustainability

There is a continued need for additional Local Government funding, that the spending review in 2022 did not adequately address. Service demand pressures continue to be felt in social care and SEND, which are only partially met by Council Tax increases and are driving the requirement for savings. The level of growth has taken a step higher following the coronavirus pandemic and the Council is dependent upon continued additional Health funding to manage.

National reforms are being developed for SEN and social care; the information provided to date is raising concerns that there is a real risk of a material negative financial impact.

All services are facing unprecedented inflationary pressure reflecting the wider economy. The council's finances are particularly sensitive to increases in the National Living Wage, which is expected to be driven significantly higher by greater wage growth in the wider economy. The impact on the County Council's budget will be profound. The budget gap in 2023/24 is expected to grow from a manageable £8m at the time the MTFS was approved in February to c£12m based on current inflation projections, despite assuming the maximum council Tax increase. Over the life of the MTFS the gap could increase to over £80m unless mitigation actions are taken. These estimates will become quickly out of date if the trend of worsening economic news does not stop.

Unless there is a significant change in Government's stance on funding it is highly likely that reserves will be required to balance the budget in both 2023/24 and 2024/25, this is clearly not a sustainable position. The County Council will need to identify mitigations that allow 2025/26 to be balanced without the use of reserves. This includes a reinforcement of existing financial control measures and the introduction of new ones to ensure a tight focus on eliminating non-essential spend.

Covid-19 Public Inquiry

In May 2021, the Prime Minister announced that a public inquiry into the Covid-19 pandemic would be established. In March 2022, the appointed Chair of the Inquiry (Baroness Hallett) began a public consultation on the draft terms of reference. This lasted until April and in May she wrote to the Prime Minister to explain that she had amended the Terms of Reference to reflect the consultation responses. It is not clear how or which local authorities will be selected to contribute to the Inquiry or whether the County Council may wish to volunteer material, but if there is to be involvement then the impact could be significant. In preparation officers have begun an exercise to identify documents, records and decisions and implement a process to ensure that any related information is preserved and readily available.

Assistance with migrants and asylum seekers, and the Homes for Ukraine Scheme..

With effect from 1st April 2023 the Home Office implemented a full asylum dispersal model. Under the policy all local authority areas will be expected to accommodate asylum seekers irrespective of whether they have the local services, capacity, or capability to manage dispersal. The Government's accommodation providers will be seeking to procure housing across the country on a pre-approved postcode basis. Any postcode that is determined to be suitable for asylum accommodation will then be pre-approved and the grounds upon which local authorities can object to the housing severely limited. This policy has been adopted to reduce the use and costs of hotel accommodation and, to ensure that there is not over reliance on existing local authority dispersal areas. Funding will be made available to local district councils housing asylum seekers in their areas. No specific funding is being made available to upper tier authorities.

As a result of the new full dispersal policy the number of asylum seekers arriving in the County has increased over time which has created additional unfunded demand for school places, specialist mental health services, and social care support (adults, children, and SEND).

In addition to dispersed accommodation the Home Office has stood up Contingency Hotel accommodation in the County in response to small boat crossings. There are currently four hotels housing asylum seekers, single males or families, across the County. The use of these hotels has created additional demands on public services including social care, schools, and school transport. The Council receives no funding for the bedspaces at these hotels.

Under the Illegal Migration Act the Home Secretary is under a duty to set a cap on the number of entrants to the UK arriving via safe and legal routes for humanitarian purposes and for this cap to be defined following consultation with local government. Consequently, the Home Office undertook a consultation exercise to inform the level at which the cap on safe and legal routes is set. The purpose of the cap will ensure the UK is able to welcome, accommodate, integrate, and support those arriving via these routes in an orderly and appropriate way. This will ensure that the UK does not take more refugees than public services and communities can cope with. In response to the consultation exercise the County Council has formally informed the Home Office that it is not able to accept any additional asylum seekers or refugees until further notice. This is due to several factors including the lack of detail in the consultation exercise, the impact of current schemes, the lack of direct funding for upper tier services, and the capacity and capability of already stretched services to support further families and individuals.

The Council continues to work with partners to administer the Homes for Ukraine scheme which was set up by the Government in response to the humanitarian crisis in Ukraine. In addition to administering the scheme the Council and partners are subject to resource pressures as sponsor/ guest arrangements breakdown and there is a subsequent need to either rematch to new sponsors or find alternative accommodation. The scheme also presents challenges in terms of the allocation of school places.

Recruitment and retention

The current workforce shortage is becoming acute in a number of areas, and with the ongoing impact of the cost-of-living crisis, is likely to get worse. Staffing costs are likely to rise, through having to put market premia / retention payments in place to counter what is happening in the wider market, and we are only at the early stages of this year's national pay negotiations, whilst costs continue to rise sharply. Should the Council be unable to recruit and/or retain staff in key areas, it faces the real risk of being unable to deliver some of its services in the future. As well as short-term solutions, as an employer, the Council has to develop long term initiatives and also to market itself as an employer to best effect.

CONTEST Strategy

The Council is beginning to plan to meet its 'Prevent' and 'Protect' (Martyn's Law) duties under 'CONTEST' (the Government's Counter-terrorism strategy).

10. Certification

The Council has been hugely impacted by the coronavirus pandemic. Nevertheless, despite the challenges, the Council has maintained consistent essential services for residents, whilst adapting to provide alternative virtual services wherever possible. The Council's strong collaborative approach has been effective at achieving a unified response, working with key partners in the NHS, police and voluntary and community sectors.

The Council's Strategic Plan 2022-26 and Medium-Term Financial Strategy will continue to be reviewed and updated to assess the medium-term impacts of the pandemic on the Council's financial position.

The Council is satisfied that appropriate governance arrangements are in place and continue to be regarded as fit for purpose.

We propose over the coming year to take steps to address any matters to further enhance our governance arrangements in these challenging times. We are satisfied that these steps will address the need for any developments that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Furthermore, having considered all the principles of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, we are satisfied that the Council has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

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John Sinnott
Chief Executive

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Nicholas Rushton
Leader of the Council

AREAS FOR FURTHER DEVELOPMENT IN 2023-24







The Corporate and Departmental AGS self-assessments contained a set of conformance statements under each core principle and related sub-principles as outlined in the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016). Each conformance statement required a corresponding score of 1, 2 or 3 to be recorded, based on the criteria below:

Score	Definition	Description	Evidence (all inclusive)
1	<p>Good</p> 	Conformance against most of the areas of the benchmark is good, although there may be minor developments required but with a limited impact on the ability to achieve departmental and Council objectives. Strategic, reputational and/or financial risks are minor, and performance is generally on track.	<p>Many elements of good practice to a high standard and high quality.</p> <p>Substantial assurance can be given that coverage of the sub-principle is operating satisfactorily and extends to most/all services areas within the department</p>
2	<p>Some development areas for improvement</p> 	There are some developments required against areas of the benchmark and the department may not deliver some of its own and the Council objectives unless these are addressed. The management of strategic, reputational and/or financial risks is inconsistent, and performance is variable across the department.	<p>Some elements of good practice to a high standard and high quality.</p> <p>Moderate assurance can be given that coverage of the sub-principle is working adequately in certain service areas, with omissions in others.</p> <p>Proposal/Plans are in place to address perceived shortfalls</p>
3	<p>Key development and many areas for improvement</p> 	Conformance against many/all areas of the benchmark is poor and therefore delivery of departmental and Council objectives is under threat. There are many strategic, reputational and/or financial risks and performance is off track.	<p>Few elements of good practice to a high standard and high quality.</p> <p>Coverage of this expectation is omitted amongst most areas.</p> <p>Proposal/Plans to address perceived shortfalls are in early stages of development</p>

Examples of key actions is summarised in the table below.

Note: some actions are not included in the table as they are already reported through the Corporate Risk Register (CRR).

**Annual Review of the Effectiveness of the Council's Governance Framework against the CIPFA/SOLACE
Delivering Good Governance in Local Government: Framework (2016)**

Core Principles of the Framework	Overall Assessment	Action to Develop Areas Further in 2023/24 (Ongoing and New)
Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law		<ul style="list-style-type: none"> It is planned to relaunch the Leadership Management Framework, in the early part of 2023 which has a key focus on importance of the Council's Values in leadership and management and the expectation placed on employees to adopt these in their way of working. In addition, these are also integral in all team building and customer service learning and development programmes. A revised Manager's Induction Programme as part of the revised Corporate Induction Programme will be launched in the early part of 2023 which includes information on the Council's Values. Full implementation of the Anti-Fraud & Corruption Strategy Action Plan over the course of the two-year period 2022-2024
Principle B: Ensuring openness and comprehensive stakeholder engagement		
Principle C. Defining outcomes in terms of sustainable economic, social, and environmental benefit		<ul style="list-style-type: none"> Continuing to develop the approach to multi-year monitoring of large and complex capital schemes to ensure medium term implications brought out, including risks and mitigations.
Principle D. Determining the interventions necessary to optimise the achievement of the intended outcomes		<ul style="list-style-type: none"> Develop arrangements further in the light of enhanced data requirements as a result of Office for Local Government establishment. Continue to push for fairer funding sought to ensure longer term service sustainability Refreshed approach, guidance, support, policy, and procedure for Social Value will be presented to Corporate Governance in May 2023 for signoff, the new approach seeks to achieve improved outcomes and improved reporting.
Principle E. Developing the entity's capacity including the capability of its leadership and the individuals within it		<ul style="list-style-type: none"> Appoint and develop the role of Independent Members of the Corporate Governance Committee
Principle F. Managing risks and performance through robust internal control and strong public financial management		<ul style="list-style-type: none"> Review and develop a fuller set of performance metrics and monitoring in light of requirements and data emerging from the establishment of the new Office for Local Government. Increased use of benchmarking information. Data Strategy and review being progressed to further enhance the Council's data management arrangements.

<p>Principle G.</p> <p>Implementing good practices in transparency reporting and audit to deliver effective accountability</p>		<ul style="list-style-type: none"> • Continuous development of procurement pipelines by departments. • Transparency requirements will be reviewed in 2023 for alignment with new legislation (Transforming Public Procurement) • Develop the Corporate Governance Committee reporting annually to full Council • Arrange for independent reviews of the internal audit and risk management functions • Implement Risk of Governance Failings - Action Plan
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