

Minutes of a meeting of the Corporate Governance Committee held at County Hall, Glenfield on Friday, 3 December 2021.

PRESENT

Mr. T. Barkley CC (in the Chair)

Mr. N. D. Bannister CC
Mr. J. G. Coxon CC

Mr. J. T. Orson JP CC
Mr T. Parton CC

45. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 34.

46. Questions asked by members under Standing Order 7(3) and 7(5).

The Chief Executive reported that no questions had been received under Standing Order 7(3) and 7(5).

47. Urgent Items.

There were no urgent items for consideration.

48. Declarations of interest.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

No declarations were made.

49. External Audit of the 2020/21 Statement of Accounts, Annual Governance Statement and Pension Fund Accounts.

The Committee considered a report of the Director of Corporate Resources which set out the key findings from the external audit of the 2020/21 financial statements and sought approval of the draft letters of representation to Grant Thornton UK LLP, the County Council's external auditors. A copy of the report marked 'Agenda Item 5', is filed with these minutes.

The Chairman welcomed Barrie Morris, Auditor Director, and Andy Reid, Senior Manager (Audit) of Grant Thornton UK LLP, the County Council's external auditors, to the meeting.

In presenting Grant Thornton UK LLP's audit findings, Barrie Morris and Andy Reid further reported that:

- (i) Some final testing was still required in order to conclude the audit. However, no significant issues were expected to arise from this work and it was therefore anticipated that the Council would receive an 'unqualified' audit opinion overall.
- (ii) Conducting the audit had been particularly challenging this year due to the impacts of Covid-19 on normal working practices, the introduction of the Council's new accounting system, and the increased level of audit testing required by national auditing standards. Increased requirements on External Auditors from the National Audit Office (NAO), also meant a new approach to examining journals had been required to be introduced and the undertaking of a technical 'hot review' of the Council's accounts to ensure they were fully compliant with the NAO Code of Audit Practice.
- (iii) The audit of the accounts required two adjustments to be made. Details of these had been included in the final financial statements, as follows:
 - a. Additional information had been included in 'Note 2' (the presentation of the expenditure and funding analysis), to show how this reconciled back to the MTFS outturn position previously reported to the Cabinet to ensure consistency.
 - b. Amendments were required to 'Note 20' (financial instruments note) for the year 2019/20 and 2020/21. It was confirmed that Grant Thornton was satisfied that the restated figures were now correct.

The Director advised the Committee that as the issue outlined in (b) above had warranted a 'prior period adjustment' to be made, it had been necessary for the Council to include an additional representation in its letter to Grant Thornton which was attached (Appendix B to the report) as follows:

'xiv. The prior period adjustments disclosed in Note 20 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.'

- (iv) Due to the challenges outlined above, the work to enable a VfM opinion to be made had been delayed (now expected by the end of January). This had been recognised by the NAO.
- (v) In line with the Audit Plan the level of materiality in respect to the County Council's accounts had reduced slightly since 2019/20. This reflected the impact of the implementation of the new Oracle Fusion general ledger and enhanced risk arising from that. Whilst one significant control deficiency relating to the segregation of access in the new Oracle Fusion Finance System had been identified as part of the audit, Grant Thornton had been satisfied overall that the transition to the new system had been a well-controlled process with no adverse impacts on the accounts.
- (vi) Some 'must do' requirements as set out in the new CIPFA guidance for local government pension scheme funds to prepare their annual report had been identified as not being included in the 2020/21 Pension Fund Annual Report (PFAR). Whilst the missing disclosures did not impact on Grant Thornton's opinion of the PFAR, it was necessary to bring them to the attention of this Committee and the Local Pension Committee and recommend that the appropriate action be taken going forward.
- (vii) The Director provided assurance that the appropriate action was being taken in respect to all four recommendations for improvements made by the auditor and that

the matter relating to the PFAR had been reported to the Local Pension Committee on 26th November 2021.

- (viii) There had been no changes to Grant Thornton's risk assessment as reported in the External Audit Plan for 2020/21 that the Committee had previously considered. With regard to the risk identified around 'Improper Revenue Recognition', it was confirmed that the detailed testing of a sample of grants (underway at the time of reporting), to provide assurance that the significant levels of Covid related funding received in 2020/21 had been accounted for and spent correctly, had now been completed with no issues identified.
- (ix) Work relating to risks around the valuation of land and buildings, (ongoing at the time the report was issued) had now been substantially completed with no issues to report.
- (x) Barrie Morris and Andy Reid specifically thanked the Council's Finance Team for all the support they had given to Grant Thornton; officers had responded exceptionally well and promptly to the queries made. The Director also thanked officers and staff at Grant Thornton whom it was acknowledged had worked closely together to deliver the audit.

Arising from discussion and questions to the external auditors the following points arose:

- (i) Members noted that the National Government's Department for Levelling Up, Housing and Communities had recently launched a consultation regarding proposed changes to the regulations around how local authorities calculate Minimum Revenue Provision (MRP). Under the current regulations' authorities were required to put aside money each year, which was referred to as MRP, from their revenue account to enable them to afford to repay principal debt where they had borrowed to finance capital spend. However, a number of local authorities had been calculating their MRP incorrectly either by not applying this to the relevant assets or loans repaid to third parties, or by applying receipts to MRP when this had not been necessary. A key risk that had been highlighted to the County Council as part of the audit was that if an authority was consistently undercharging for investment properties, the matter could become a material issue over time.
- (ii) It was highlighted that although there were currently no concerns with the County Council's management of MRP, due to increased attention on this nationally and in the interests of prudence, Grant Thornton had undertaken some checks in this area as part its audit. The Council had changed the basis of calculation of its MRP in 2019/20 and the audit work confirmed that the Council's estimated level of provision was reasonable and in line with statutory guidance.
- (iii) In response to a question regarding how MRP would be calculated if an asset purchased using a third party loan was subsequently revalued to a lesser amount, it was confirmed that if, for example, the Council had purchased an asset for £100m which was subsequently revalued at £80m, then the revalued amount would need to be reflected throughout the accounts to show the impairment of the value of the asset. However, the Council would still be required to repay the full amount it had borrowed (e.g. £100m) and could potentially use its MRP to make the repayments over the term of the loan.

- (iv) Acknowledging the challenges that had occurred throughout the auditing period, the Committee noted the report and expressed its thanks to the auditors and to Council officers for all the work that had been undertaken. The anticipated overall 'unqualified' audit opinion was welcomed.

RESOLVED:

- (a) That the key findings from the external audit of the 2020/21 financial statements carried out by Grant Thornton UK LLP be noted;
- (b) That the letters of representation attached as Appendix B and C to this report be approved subject to the addition of the following to Appendix B:

xiv. The prior period adjustments disclosed in Note 20 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

50. Date of next meeting.

RESOLVED:

That the next meeting of the Corporate Governance Committee be held on Friday 28th January 2022 at 10.00am.

10.00 – 10.36am
3 December 2021

CHAIRMAN