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Informing the audit risk assessment for Leicestershire County Council and Pension Fund 2019/20

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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 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 your business or any 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.

Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	6
Fraud	7
Fraud Risk Assessment	8
Laws and Regulations	13
Impact of Laws and Regulations	14
Going Concern	16
Going Concern Considerations	17
Related Parties	21
Accounting Estimates	23
Appendix A Accounting Estimates	25

Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Council and Pension Fund's external auditors and the Council's Corporate Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Corporate Governance Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Corporate Governance Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Corporate Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Corporate Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Corporate Governance Committee and supports the Corporate Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Corporate Governance Committee's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from the Council and Pension Fund's management. The Corporate Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?</p>	<p>This would have been the implementation of a new ERP (financial management system), Oracle Fusion, wef 1 April 2020, and IFRS16, accounting for Leases. Since then both have been postponed due to Covid19.</p> <p>The impact of Covid19 will have a significant impact on the 2019/20 statements; reductions and uncertainties around the valuation of assets and investments, and post balance sheet events on the ongoing costs of the Council's support and the current estimated gap in funding of £28m in 2020/21.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by the Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>These have been reviewed and align with the Code of Practice. No changes are needed for 2019/20. However, additional disclosures will be made in the Narrative Statement and the Notes to the Accounts to explain valuation uncertainties as at the balance sheet date.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>The Council and Pension Fund use financial instruments, Investments, borrowing, cash, debtors etc – there are no changes in use compared with previous years.</p> <p>The Council holds no derivatives.</p> <p>The Pension Fund has derivatives, the largest being forward foreign exchange contracts - held to benefit from expected changes in the value of currencies relative to each other – same as previous years.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business?</p>	<p>No</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
6. Are you aware of any guarantee contracts?	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>Where necessary, the Council uses external solicitors to deal with litigation, undertake major transactional work or to provide specialist advice. The Council tends to use major regional law firms to deal with any externalised contentious or non-contentious work. Most frequently, the Council instructs firms of solicitors on the East Midlands Law Share panel. Those firms include Weightmans LLP & Browne Jacobson LLP. In addition, the Council engaged Bevan Britten LLP to provide advice on development of land at Lutterworth, and Squire Patton Boggs, for pension fund pooling advice (with other pool members).</p> <p>Certain civil litigation claims (such as claims in tort for alleged historical abuse) can be brought forward long after the alleged expiry of the relevant limitation period and certain of those claims are still continuing.</p>
9. Have any of the Authority's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	The Council uses external advisors from time to time to advise on various aspects of its operations. These are all part of normal business operations. However these are not that significant to report.

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Corporate Governance Committee and management. Management, with the oversight of the Corporate Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Corporate Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Council and Pension Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Corporate Governance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Corporate Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Corporate Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council and Pension Fund's management.

42



Fraud risk assessment

Question	Management response
<p>1. Have Leicestershire County Council/ Pension Fund assessed the risk of material misstatement in the financial statements due to fraud? (including nature, extent and frequency of such assessments)</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>Yes. Continually assessed via a number of indicators: Effective monthly budget monitoring and challenge through empowering budget managers to be accountable for their cost centres. Review by Finance business partners and corporate finance.</p> <p>Effective finance and internal audit function.</p> <p>Regular bank and control account reconciliations overseen by Corporate Finance.</p> <p>Balance scorecard of key controls reported to Chief management and departmental management teams.</p> <p>The Internal Audit Service undertakes a biennial fraud risk assessment (FRA). The lead officer for this is the Head of Internal Audit & Assurance Service (HoIAS) and the FRA is tabled at the Corporate Governance Committee (usually at January committee). The fraud risk assessment process seeks to identify, and score relative to one another, the fraud risks facing the County Council. Scores are derived from discussions with key service leads, departmental risk champions and from both local and national fraud intelligence. Subsequently, the results of the fraud risk assessment are used to inform the annual Internal Audit planning process, i.e. in order that audit resources are targeted to those areas of perceived higher risk.</p> <p>The Internal Audit Service has a qualified CIPFA Counter Fraud Technician. Part of this role included attendance at regional fraud group meetings involving other county councils. This in one example how fraud intelligence is shared, i.e. frauds affecting other councils that we need to be mindful of.</p> <p>The County Council approves a Risk Management Strategy each year as part of the MTFS. The strategy sets out the approach to managing and reporting risks. Each department has its own risk register using a central template and scoring system which is agreed by DMT's. The departmental risk registers are then compiled centrally and the more significant risks reported to the Corporate Governance Committee every quarter.</p>

Fraud risk assessment

Question	Management response
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The Council is always vigilant to the threat of fraud and Internal Audit work is planned to highlight the threat of potential fraud. High scoring areas arising from the FRA are used to inform the annual Internal Audit Plan. For 2019/20 the risk of Adult Social Care fraud is prominent, e.g. direct payments misuse.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council / Pension Fund as a whole or within specific departments since 1 April 2019? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Within Leicestershire County Council, strategic and operational responsibility for counter fraud rests with the Head of Internal Audit Service (HoIAS). Therefore, the HoIAS is routinely aware of any actual, suspected or alleged fraud affecting the entity. A list of investigations is held by the HoIAS and such details are kept confidential so as not to jeopardise such investigations. This list is shared with GT upon request as appropriate. The Corporate Governance Committee is updated on concluded investigations via progress reports.</p> <p>The Internal Audit Service is responsible, annually, for completing both the CIPFA Fraud & Corruption tracker and the Council's reporting obligations for fraud under the Local Government Transparency Code. These processes both summarise the fraud activity that the Council has been exposed to in the previous year.</p> <p>The Corporate Governance Committee meets on a quarterly basis. Regular counter fraud updates are provided to the Committee by the HoIAS, acting as representative of the s.151 officer. As an example, the CGC will receive the biennial fraud risk assessment (FRA), setting out what the Council considers its major fraud risks to be.</p> <p>The Council's suite of counter fraud policies and procedures are approved by the Corporate Governance Committee (most recently 24 October 2018). This includes the biennial refresh of the Council's overarching Anti-Fraud & Corruption Strategy and the two year action plan that sits within it. The plan sets out a range of intended actions over a two year period designed to improve the Council's resilience to fraud yet further.</p>

Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Authority where fraud is more likely to occur?</p>	<p>National fraud intelligence continues to highlight procurement fraud, cyber fraud and adult social care fraud as three main areas of fraud risk.</p> <p>COVID-19 brings new risks, e.g. grant fraud, employee fraud, and audit work is being targeted into these areas, e.g. audits of emergency grant funding (LCC Communities Fund) and of increases to employee pCard limits to enable emergency spending. We are aware that COVID-19 will mean that some processes are done differently in the short-term and have asked managers to inform Internal Audit of any significant changes to established procedures in order that we can assess risks and controls at the outset.</p> <p>We do not consider there to be a particular heightened risk at certain locations, indeed the risks are reduced in some areas due to temporary service suspension, e.g. schools.</p>
<p>5. What processes do the Authority have in place to identify and respond to risks of fraud?</p>	<p>See response to Q3</p>
<p>6. How would you assess the overall control environment for the Authority, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively?</p> <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>a) Overall internal controls work effectively and Internal Audit report on ineffective controls which are corrected by management.</p> <p>b) n/a</p> <p>c) Amongst others, segregation, and authorisation controls exist in key processes to reduce the risk of fraud. Reconciliations, budget monitoring and exception reporting, including review by Internal Audit, help to deter and identify cases of fraud.</p> <p>d) Not significantly. Financial and operational targets are an important part of the management process. However, there are a number of officers in the process that would counter any significant risk. This includes strategic budget managers (who review individual cost centre budget forecasts), and the finance function. The finance function comprises review by the Financial Analysis Information Team (FAIT), the Finance Business Partner team and the Technical Accounting Team. Reports are collated, reconciled centrally to all codes for completeness and reviewed by the Head of Finance and the Assistant Director, Strategic Finance and Property. Reports are then taken regularly to CMT and Elected Member committees,</p>

Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	See response to Q6
<p>8. How do the Council communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>In addition to the Council's suite of counter fraud policies and procedures, there are a number of indirectly-linked policies such as an Employee Code of Conduct and policies for the declarations of interests and gifts and hospitality. The Monitoring Officer reviews entries with the HoIAS each year which may result in further questions/clarifications.</p> <p>The Council ran a fraud awareness campaign in November 2019 to coincide with International Fraud Awareness week. This saw targeted communications to staff in a number of areas over the course of a week, designed to raise awareness of fraud risks affecting organisations such as ours. This gave the opportunity to discuss Council policy in a number of areas, e.g. gifts & hospitality, declaring personal interests (both aligned to bribery risk), and indeed to direct staff to both the Council's policies and procedures, and the mandatory fraud awareness e-learning module. The fraud awareness campaign was fully supported by the Corporate Management Team .</p> <p>The Council has a wealth of information on fraud on both its externally-facing website and on the internal staff intranet.</p> <p>The Council regularly promotes its whistleblowing process to staff. No significant issues have been reported.</p>

Fraud risk assessment

Question	Management response
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>The Council has many, wide-ranging, functions and there are a number of areas where staff could be deemed to be in 'higher risk' posts. This might include, but would not be restricted to, staff involved in procurements (risk of bribery and collusion), staff involved in processing payments (creditors, payroll and other) and staff with custody of assets, e.g. stock.</p> <p>Managers are responsible for operating effective internal controls in their individual service areas, a prime example being a division of duties in key financial processes. The effectiveness of these controls may be subject to independent review by Internal Audit as part of the risk-based annual Internal Audit Plan.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Not aware of any related party relationships or transactions that could give rise to instances of fraud. Monitoring and controls in place mitigate the risk.</p> <p>The Council operates contract procedure rules that require more than one person to be involved in all contract discussions.</p>
<p>11. What arrangements are in place to report fraud issues and risks to the Corporate Governance Committee?</p> <p>How does Corporate Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>a) as above to Q8 and Q11b) below.</p> <p>b) Concluded fraud investigations are reported through to the Corporate Governance Committee (it may hamper an investigation, e.g. the taking of criminal action, to report fraud investigations that are 'in progress'). With regard to breaches of internal control all 'high importance' audit recommendations are reported through to the Corporate Governance Committee along with the latest position regarding their implementation. These recommendations continue to be reported until such time we are satisfied that the recommendations have been adequately implemented.</p>

Fraud risk assessment

Question	Councils Management response
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	<p>Historically, the Council has received a low number of whistleblowing referrals. These are co-ordinated through the Director of Law & Governance. Where a referral has a financial slant to it the DoL&G liaises with the Head of Internal Audit Service in line with the Council's Fraud Response Plan.</p> <p>The Council actively publicises its whistleblowing channels, e.g. through e-learning, a recent poster campaign to coincide with International Fraud Awareness Week and intranet articles.</p>
13. Have any reports been made under the Bribery Act?	No

Law and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Corporate Governance Committee, is responsible for ensuring that the Council and Pension Fund's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Corporate Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council and Pension Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council and Pension Fund's regulatory environment that may have a significant impact on the Council and Pension Fund's financial statements?</p>	<p>Internal Audit Service operates to the standards set out in the "Public Sector Internal Audit Standards" and the Internal Audit Plan specifically considers compliance with laws and regulations.</p> <p>The Council regularly promotes its whistleblowing process to staff.</p> <p>The operation of the statutory officer roles (Head of Paid Services, Monitoring Officer and Chief Financial Officer) help to ensure compliance with laws and regulations. For example, the Monitoring Officer has the authority to report to Council if they consider that any proposal, decision or omission would give rise to unlawfulness or maladministration, thereby stopping the proposal or decision being implemented until the report has been considered. Finance and Legal implications are outlined in all committee reports. County Council policies, finance procedural rules and contract procedure rules. Specialist teams, legal, finance, risk management, procurement, internal audit etc.</p>
<p>2. How is the Corporate Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Standard reporting formats require that legal implications are outlined in all committee reports. The Monitoring Officer and the Chief Financial Officer or deputy attends Corporate Governance committee meetings to advise members of any known issues and to respond to members enquiries.</p> <p>The Head of Internal Audit Service has a number of alternative reporting lines in the event of breach of law or regulation, including a right to meet privately with the Chair of the Corporate Governance Committee or the Committee in full, should the situation determine such an approach necessary.</p>

Impact of laws and regulations

Question	Management response
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?	There are no instances of non-compliance that would have a material effect on the 2019/20 financial statements
4. Is there any actual or potential litigation or claims that would affect the financial statements?	Areas of litigation are reported in the Statements where their impact is considered material or significant to the readers of the statements and the outturn itself. There are no material uninsured litigations (greater than £1m.)
5. What arrangements does the Council and Pension Fund have in place to identify, evaluate and account for litigation or claims?	The Council and Pension Fund has an insurance team and a Legal team that manages litigation and claims on behalf of the Council and the Pension Fund. All claims are passed to these teams. During the year the finance team will liaise with the insurance and legal teams to evaluate any material claims and make the appropriate accounting entries in the accounts.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None

Going Concern

Issue

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
<p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the Council and Pension Fund? What was the outcome of that assessment?</p>	<p>Yes, the Council has concluded that it is a going concern, as a statutory and tax raising body.</p>
<p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Authority's Business Plan and the financial information provided to the Council throughout the year?</p>	<p>Yes. Established regular MTFs and earmarked funds reporting process to senior management and members, combined with departmental and corporate performance reporting against the Council's corporate plans and targets. The assessment is continually being reviewed in light of the impact of Covid19. However, at this stage, the conclusion is unchanged from that above.</p>

Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	Yes. The via the Medium-Term Financial Strategy Plan, which specifically includes consideration of both national (e.g. statutory) and local (e.g. policy) issues in terms of their potential financial impact.
4. Have there been any significant issues raised with the Corporate Governance Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No significant issues have been raised.
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	No material adverse financial indicators have been identified, other than that relating to Covid19. It is expected that these can be managed.

Going concern considerations

Question	Management response
<p>6. Does the Council and Pension Fund have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Yes.</p>
<p>7. Does the Council and Pension Fund have procedures in place to assess their ability to continue as a going concern?</p>	<p>Yes, via the annual MTFS, most recent was approved by the County Council in February 2020. This covers the next four year period to 2024.</p>
<p>8. Is management aware of the existence of events or conditions that may cast doubt on the Council and Pension Fund's ability to continue as a going concern?</p>	<p>The annual MTFS shows managements' approach to the impact of significant and ongoing central government reductions in funding and pressures on Special Education Needs and Disabilities (SEND). The MTFS shows a balanced budget for 20/21 and 21/22 with a shortfall of £19m in 22/23 rising to £39m in 23/24.</p> <p>However, the MTFS includes plans to achieve the additional savings and income required through new savings under development. The MTFS also includes a contingency of £8m p.a. for risks and a contingency for growth of £18m. In addition the Council has sufficient reserves (c.£100m) to mitigate this risk in the medium term.</p> <p>Since the MTFS was approved in February 2020, the latest estimate for the impact of Covid19 is a net cost of around £28m in 2020/21. The impact will also continue into later years and add to the shortfall in the MTFS. To manage this position the Council will use part of the MTFS risk contingency, part of its General Fund and reprioritise the four year capital programme (this includes £72m revenue funding of capital) and continue to seek further efficiencies and savings opportunities.</p> <p>The Council also has statutory tax raising powers if required.</p> <p>The 2019 pension fund tri-annual valuation reported a significant improved position. The valuation, undertaken by the Actuary, calculated an 89% overall funding level, which is a significant funding improvement (the 2016 valuation calculated a 76% funding level). The</p>

Going concern considerations

Question	Management response
<p>9. Are arrangements in place to report the going concern assessment to the Corporate Governance Committee ?</p> <p>How has the Corporate Governance Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>Undertaken as part of the 4 Year MTFS to the County Council and in the Statement of Accounts approved by the Corporate Governance Committee</p>

Related Parties

Issue

Matters in relation to Related Parties

The Council and Pension Fund are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council (i.e. subsidiaries);
- associates;
- joint ventures;
- an entity that has an interest in the Council that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Relating Parties

Question	Councils Management response
<p>1. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> • Maintenance of a Register of interests for Members and officers, requiring disclosure of related party transactions. • Annual return from senior managers/officers and members requiring confirmation that read and understood the declaration requirements and stating details of any known related party interests. • Review of in-year income and expenditure transactions with known identified related parties from prior year or known history. • Review of related information with subsidiaries, companies and joint ventures, e.g. accounts. • Review of the accounts payable and receivable systems and identification of amounts paid in relation to related parties identified. • Review of year end debtor and creditor positions in relation to the related parties identified. • Review of minutes of decision making meetings to identify any member declarations and therefore related parties.

Relating Parties

Question	Management response
<p>2. The identity of the entity's related parties, including changes from the prior period</p>	<p>People who are regarded as related parties are:</p> <ul style="list-style-type: none"> • Elected members - Responsible for the direct control of the policies of the authority • Chief Executive, The Executive Directors and other Senior Officers, as key management personnel that have the authority and responsibility for planning, directing and controlling the activities of the authority. • Members of the families and households of members and officers with the ability to influence members or officers <p>Entities that are regarded as related parties are:</p> <ul style="list-style-type: none"> • Central government - Has effective control over local authorities, as authorities are incapable of acting without statutory authority. Able to limit possibility of independent action by specifying transactions and the terms on which they are concluded. • Other public bodies subject to common control by central government • Partnerships, companies, trusts or any entities in which members/officers or a member of their close family or the same household has a controlling interest, • Pension Fund <p>The annual Statements present a detailed analysis of transactions between the authority and its related parties.</p>

Relating Parties

Question	Councils Management response
3. The nature of the relationships between the entity and these related parties	See response to Q2
4. Whether the entity entered into any transactions with these related parties during the period and, if so, the types and purpose of the transactions	Information is currently being collated as part of the year end work and will be included in the Statement of Accounts.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

The Council and Pension Fund apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council and Pension Fund identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that both the Council and Pension Fund are using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Corporate Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No.
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes. Prepared from relevant accounting standards, legislation, and guidance issued by CIPFA, primarily the Code of Practice. In addition the Technical Accounting Team attend annual technical updates to ensure knowledge is kept up to date. The team also use other professional officers where appropriate to do so, for example Valuers, Actuaries etc. Material new or changes are approved by the s151 officer.

Accounting Estimates

Question	Management response
<p>3. How is the Corporate Governance Committee provided with assurance that the arrangements for accounting estimates are adequate?</p>	<p>The Director of Corporate Resources and finance team reporting the statements of accounts to the committee. All senior staff involved are qualified experienced accounting professionals. In certain specialist areas other professional officers are also used as appropriate, including: A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied when estimating the pension liability. A firm of qualified valuers, overseen by the authority's qualified valuers, are engaged by the Authority to carry out, for the major assets, a programme of physical valuations to ensure that their carrying values are subject to professional and independent assessment. Treasury Management advisors provide fair value estimates for financial instruments.</p>
<p>4. How do management identify transactions, events, and conditions that may give rise to the need for accounting estimates to be recognised or disclosed in the financial statements?</p>	<p>Regular review by the finance team, including the Head of Finance, the Technical Accounting Manager, and Finance Business Partners, in reviewing all Cabinet reports for financial impacts of decisions. This is further supplemented by information gathered from compilation of the MTFs and regular budget monitoring.</p>

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations	<p>Valuations for land and buildings are undertaken by Bruton Knowles in line with RICS guidance on the basis of 5 year valuation with interim reviews. The external valuer is overseen and managed by internal RICS qualified Valuers.</p> <p>Other assets are valued on the basis of depreciated historic cost as proxy for fair value as relatively short asset lives before replacement.</p>	<p>Form of undertaking is in place between Finance Team and the Valuer that sets of the requirements.</p> <p>The Valuer will undertake the valuations in line with the form of undertaking. The finance team will review the output and check for completeness.</p> <p>The overriding requirement is that the carrying value is not materially different from the amount that would be determined by valuation. The Valuer working with the Finance Team will also consider factors (informed by Property Service Manager) that would indicate where an interim valuation is required.</p>	Bruton Knowles	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion. Valuations are made in-line with RCIS guidance – reliance on expert. Assumptions are set out in valuer’s report.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Estimated remaining useful lives of PPE	<p>The following asset categories have general asset lives:</p> <ul style="list-style-type: none"> - Buildings varies from asset to asset, usually 50 to 70 years - Equipment/ vehicles average 5 years - Plant average 5 years - Infrastructure 40 years 	<p>Specific asset lives applied to buildings. Consistent asset lives applied to each asset category.</p>	<p>Discussion with internal asset team and where applicable Bruton Knowles as the valuer.</p>	<p>The method makes some generalisations. For example, building lives would vary depending on the construction materials used. This life would be recorded in accordance with RICS valuation. Detailed information is included in the valuers report for each asset. The lives used for other assets are based on operational experience of the service areas. The assets live is then recorded in the asset register.</p>	No
Depreciation and Amortisation	<p>Depreciation is provided on all PPE by the systematic allocation of their depreciable amounts over their useful lives. Buildings are depreciated over their remaining useful economic lives as assessed by the property valuer, with no allowance for a residual value. No depreciation charge is made for the land, community assets, assets under construction or assets held for sale.</p> <p>All other assets with a finite useful life are depreciated on a straight-line basis.</p>	<p>Consistent application of Depreciation method across all assets</p>	No.	<p>The length of the life is determined at the point of acquisition or revaluation. Major components are depreciated separately.</p>	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Assets are assessed at the year-end for any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall..	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. This assessment is made by the internal valuer for land and buildings and by Property Services Manager and finance team (and other relevant officers for the asset type) for other assets.	Discussion with internal asset team as appropriate.	Valuations are made in-line with RICS guidance - reliance on external and internal experts.	No.



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	<p>Liabilities Financial liabilities are recognised on the Balance Sheet when the Authority becomes party to the contractual provisions of a financial instrument. Borrowings at fixed interest rates from either the PWLB or other financial institutions are initially measured at fair value and carried in the Balance Sheet at amortised cost.</p> <p>Borrowing at Variable Interest Loans linked to the London Inter-bank Offered Rate (LIBOR) will be recorded at amortised cost. Loans at stepped interest rates (LOBO's) are recorded at fair value with interest charged to the Comprehensive Income and Expenditure Statement calculated at the effective rate of interest, which discounts estimate future cash payments over the life of the instrument (essentially an average rate for the expected duration of that loan), rather than the cash paid in a year.</p>	<p>Detailed loans register records and reconciliation to the accounts and external primary evidence of loans outstanding, for example PWLB statement of balances.</p> <p>As above</p>	<p>Partial - within the notes to the accounts the fair value of loan liabilities is disclosed which is provided by External Treasury Management Experts (Link Asset Services).</p>	<p>None</p>	<p>No</p>

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	<p>Statutory regulations enable the Authority to negate the additional interest arising on LOBO's (if loan arranged before November 2007) by posting a reversal within the Movement in Reserves Statement to the Financial Instruments Adjustment Account. The borrowings presented in the Balance Sheet are made up of the outstanding principal repayable plus accrued interest. Interest payable in the year is charged to the CIES.</p> <p>Premiums and Discounts Arising from Premature Repayment of Debt. The Authority continuously reviews existing external loans and interest rates being paid, and has the option of restructuring or refinancing this debt. All such transactions are taken to the Comprehensive Income & Expenditure Statement in the year that the repayment is made. Statutory regulations enable the Authority to negate the additional charge/credit arising</p>	As above	No	None	No



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	<p>on such transactions by posting a reversal within the Movement in Reserves Statement to the Financial Instruments Adjustment Account.</p> <p>Premiums and discounts arising from premature repayments of debt arising since 1 April 2007 are charged to the Movement in Reserves Statement over the lesser of the remaining period of the loan(s) being repaid or a maximum of 10 years. All outstanding premiums arising from earlier periods are being charged over a period of up to 25 years.</p> <p>Assets Loans and Receivables These are assets that have determinable payments or fixed interest rates with a fixed maturity date but are not quoted in an active market.</p>				



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	<p>Soft Loans Under certain criteria the Authority provides loans to foster parents and to older people with physical disabilities. These loans are interest free. The total value is considered to be immaterial to the Authority's accounts; therefore these loans have not been revalued on a fair value basis in accordance with the CIPFA COPLAA.</p>	Detailed records held and reconciled regularly	No.	None	No
	<p>Fair Value through the Comprehensive Income & Expenditure Statement Forward investment deals (investment negotiated one year but with actual settlement in a future year). These are accounted for as a derivative between the trade and settlement dates. The difference between the agreed rate of interest with that attributable for a loan negotiated at 31 March with similar contractual terms will show a gain or loss that is taken to the Comprehensive Income and Expenditure Statement. (Note no forward investments in 2019/20)</p>	Detailed records of investments made.	No.	None	No

70



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Charged in the year that the Council becomes aware of the obligation.	No.	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.	No.



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Bad Debt Provision	A provision is estimated using knowledge of any risk of non recovery for individual debts and a proportion basis used based on experience of expected credit loss for an aged debt listing.	Central Finance team provide detailed guidance to departmental finance business team on approach and reviews working papers.	No.	Past experience.	No.
Finance Lease liability	At the inception of the lease the liability is the lower of the fair value of the asset or present value of the minimum lease payments. Payments are split between the finance charge and the element that reduces the liability	Finance team review contracts and payments over the de-minimus level to ensure the lease is categorised correctly as a finance lease or an operating lease. Calculations supported by lease documents.	Not required	Assets recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is the shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period)	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	<p>Finance team provide detailed guidance and training to budget managers and other finance colleagues on the establishment of accruals of expenditure and income. All accruals are reviewed before posting to the accounts. Activity is accounted for in the financial year that it takes place, not simply when cash payments are made or received.</p> <p>While processes and procedures will be maintained to capture all accruals, resources will be focused on identifying individual transactions of £1,000 and above. An Accumulated Absences account (£5m 18/19) to reflect the value of time owed to employees for accrued holidays, TOIL (time off in lieu) and flexitime. This balance is based on an historic value subject to annual review and amendment where there have been significant changes in staff numbers or working patterns.</p>	<p>Detailed guidance and manager training.</p> <p>Review financial systems to identify where goods have been received but not paid for.</p> <p>Requests of service managers to identify any other goods or services received or provided but not paid for, with additional Challenge concentrating on transactions greater than £10,000</p> <p>Review of circumstances that indicate the approach to annual leave accrual is still valid.</p>	No.	<p>Accruals for income and expenditure often based on known values.</p> <p>Where accruals are estimated the latest available information is used.</p> <p>The value of the accruals below the threshold of £1,000 is not a material amount.</p> <p>The annual leave accrual is based on historic records. An annual review will be performed to assess whether there are any circumstances that mean the historic calculation of annual leave is no longer a reasonable estimate and whether the survey process needs to be performed on a partial or complete basis. Events likely to trigger such a decision would be significant changes in staff numbers or working patterns.</p>	No.



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Liability	The Council is the administering authority of the Leicestershire Local Government Pension Scheme. The Council engage the Actuary who provides the estimate of the pension liability.	Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year.	Consulting Actuary	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No.
Non Adjusting events – events after the balance sheet date	Finance Team and S151 Officer make the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an un-adjusting event. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.	Managers notify the finance team/ s151 officer	This would be considered on individual circumstance.	This would be considered on individual circumstance.	No.



Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Defined benefit pension amounts and disclosures	Non-teaching staff of the Council and admitted bodies staff are members of the LGPS that the Council.	Rely on the calculations made by the Actuary.	The Actuary of the pension scheme	Reliance on the expertise of the actuaries of the pension scheme.	No.
Pension Fund Actuarial Gains / Losses	The actuarial gains and losses figures are calculated by the actuarial experts. These figures are based on making % adjustments to the closing value of assets / liabilities	For the LGPS the Authority responds to queries raised by admitted bodies of the Pension Fund.	The Authority are provided with actuarial report.	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field. Any major market fluctuations that may impact on the year end valuations should they occur will be discussed with the Actuary to ensure that forecasts are reasonable.	No.



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