

The Annual Audit Letter for Leicestershire County Council

Year ended 31 March 2020

May 2021



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Your key Grant Thornton team members are:

John Gregory

Key Audit Partner

T: 0121 232 5333

E: john.gregory@uk.gt.com

Avtar Sohal

Director

T: 0121 232 5420

E: avtar.s.sohal@uk.gt.com

Kerry Sharma

Assistant Manager

T: 0116 257 5576

E: kerry.sharma@uk.gt.com

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Leicestershire County Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Corporate Governance Committee as those charged with governance in our Audit Findings Report on 25 November 2020.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the Council's financial statements to be £11.9m, which is approximately 1.5% of the Council's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 21 December 2020.
Whole of Government Accounts (WGA)	We are in the process of completing work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 25 November 2020.
Certificate	We are unable to certify that we have completed the audit of the financial statements of Leicestershire County Council until we resolve outstanding audit procedures on the Whole of Government Accounts consolidation return.

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Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff given the challenges of Covid-19 and remote working arrangements.

Grant Thornton UK LLP
May 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the financial statements to be £11.9m, which is approximately 1.5% of the gross cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £100k which was reflected in the audit plan and audit findings report.

We set a lower threshold of £0.595m, above which we reported errors to the Corporate Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Significant audit risks - Council

Risks identified in our Audit Plan

Auditor commentary

Covid- 19 (also applies to Pension Fund)

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided in July 2020;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.

We were satisfied for the year ending 31 March 2020 the Council had worked effectively to respond to the challenges brought by Covid-19 and were able to produce financial statements in line with revised deadlines and take into account the impact of Covid-19 on their operations and their finances.

Improper revenue recognition

As reported in our audit plan on 31 January 2020, we have rebutted the risk of revenue recognition and have deemed that this rebuttal remained appropriate.

Significant audit risks - Council

Risks identified in our Audit Plan

Management override of controls

Auditor commentary

We have;

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determine the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit testing did not highlight any evidence of management override of control

Valuation of Land and Buildings

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- corresponded with the valuer to confirm the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested revaluations made during the year to see if they had been input correctly into the Council asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

We included an Emphasis of Matter in our audit opinion as a result of the material uncertainty reported in Bruton Knowles' valuation report as at 31 March 2020. An Emphasis of Matter (EoM) is not a qualification of the opinion – it is simply an additional paragraph within it which draws the reader's attention to a particular part of the accounts, in this case the disclosures of this estimation uncertainty. Almost all councils will have such an EoM in their audit reports for 2019/20.

Significant audit risks - Council

Risks identified in our Audit Plan

Valuation of pension fund net liability

Auditor commentary

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 evaluate 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; and
- obtained assurances from the audit of the Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

We included an emphasis of matter in our audit opinion for the Pension Fund audit, as there is a material uncertainty disclosed in the valuation of the Direct properties of £99m. Given the Councils share of these assets is material, we included an emphasis of matter in our audit opinion for the Council too.

Significant audit risks – Pension Fund

Risks identified in our Audit Plan

The valuation of Level 3 investments is incorrect

Auditor commentary

We have:

- evaluated management's processes for valuing Level 3 investments
- reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met
- independently requested year-end confirmations from investment managers and custodians
- 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. Reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period
- in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert
- tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register
- where available reviewed investment manager service auditor report on design effectiveness of internal controls.

As reported on page 8 we will include an emphasis of matter in our audit opinion for the Pension Fund audit, as there is a material uncertainty disclosed in the valuation of the direct properties of £99m.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 21 December 2020.

Preparation of the financial statements

The Council presented us with draft financial statements in July 2020 in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Corporate Governance Committee on 25 November 2020.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on alongside the draft Statement of Accounts in August 2020.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Leicestershire County Council LGPS Pension Fund on 21 December 2020. We also reported the key issues from our audit of the pension fund accounts to the Council's Corporate Governance Committee on 25 November 2020.

Whole of Government Accounts (WGA)

We are carrying out work in line with instructions provided by the NAO . We will issued an assurance statement at the conclusion of the audit procedures.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of Leicestershire County until we have completed our audit procedures on the WGA consolidation.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020. See overleaf for details of the work carried out and our findings.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p data-bbox="45 392 538 421">Covid-19 - Financial Sustainability</p> <p data-bbox="45 492 538 549">(AS AT NOVEMBER 2020 – the position has moved on since then)</p>	<p data-bbox="538 392 1263 621">We have reviewed the financial outturn for the year ending 31 March 2020 and noted that there has been a net overspending of £3.3m, which has been offset by a reduction to the level of revenue funding of capital in 2019/20. This is similar to the amount that was anticipated and adjusted for within the refresh of the Medium Term Financial Strategy for 2020-24. Covid-19 did not have a significant impact on the Council's finances for the year ending 31 March 2020</p> <p data-bbox="538 642 1263 785">As at November 2020 the Councils estimate of net additional costs due to Covid-19 for 2020/21 is £12m after government grant support. The position has improved since the last report to the Cabinet in September 2020 which reported a net estimated cost of £18m.</p> <p data-bbox="538 806 1263 978">As at month 6 of 2020/21, the Council is reporting a net overspend of £7.4m for the year. This is estimated to comprise net additional costs due to Covid-19 of £12m and non Covid-19 related underspends of £4.6m. The Council has a healthy general fund position and therefore in the short term is able to meet any shortfalls to deliver a balanced budget if required.</p> <p data-bbox="538 999 1263 1228">Before Covid-19, the 2020-24 MTFS savings requirements totalled £80m, with £39m of savings to be identified. The impact of Covid-19 as at November 2020 showed a predicted savings requirement of £100m across the 3 year period covering 2021/22, 2022/23 and 2023/24, with gaps of £20m, £30m, and £50m currently identified. However, this does not take into account the impact of any changes or increases in government funding in the period</p> <p data-bbox="538 1249 1263 1389">The impact of the increased savings requirement is an area of focus for the Council, and they are developing strategies to deal with the forthcoming cost pressures. To balance the budget without a significant impact on services will require a major efficiency initiative and increased government funding.</p>	<p data-bbox="1263 392 2003 621">The Council's financial outturn for 31 March 2020 was in line with expectations and there was limited impact from Covid-19. The Council now like all other local authorities is reacting to the impact of Covid-19 on its service delivery and is facing financial pressures as a result for 2020/21 and is predicting an overspend against budget, even after the support of government funding. However we are satisfied in the short term the Council's general fund balance can mitigate the impact of any shortfalls.</p> <p data-bbox="1263 642 2003 871">Over the medium term, the Council will have to look at how it balances its budget and identify savings, with a need for transformation in some areas of service delivery. The medium term position is uncertain, with much of the uncertainty stemming from the lack of clarity over the impact of central government funding in future years. However, the Council has gone into this uncertain period in a healthier position than many county councils and has strong financial planning arrangements in place.</p> <p data-bbox="1263 892 2003 1092">Overall, we are satisfied that the Council has arrangements in place to monitor its financial position for the short term, and has appropriate level of general reserves to mitigate any shortfalls if required. The Council has arrangements in place to monitor its finances in the medium term and refreshes its savings plans as required. We are therefore satisfied that they are no material weaknesses in the Council's arrangements.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	January 2020
Audit Findings Report	November 2020
Annual Audit Letter	February 2021

Fees

	Planned £	Actual fees £
Statutory audit	71,102	81,767
Audit of Pension Fund	25,530	29,360
Total fees	96,632	111,127

Audit fee variation - Council

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £59,252 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Fee variations are subject to PSAA approval.

Area	Reason	Fee proposed
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£2,500
PPE Valuation	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of PPE Valuation needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of PPE Valuation this year to reflect this	£4,350
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£5,000
Covid-19	The increase in audit fee is due to the impact of Covid-19 on the financial statements audit. Remote working has taken additional time to explain the audit trail of transactions rather than discussing processes and procedures in person. In addition to the increased level of work and challenge undertaken in response to the Covid-19 pandemic and associated significant risk, there has also been additional work undertaken in response to the value for money risks identified within our audit plan addendum.	£10,665
Total		£22,515

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A. Reports issued and fees

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

Audit fee variation – Pension Fund

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £21,280 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
Raising the bar	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	£2,500
Valuation of level 3 investments – where held and material	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.	£1,750
Covid-19	The increase in audit fee is due to the impact of Covid-19 on the financial statements audit. Remote working has taken additional time to explain the audit trail of transactions rather than discussing processes and procedures in person. In addition to the increased level of work and challenge undertaken in response to the Covid-19 pandemic and associated significant risk, there has also been additional work undertaken in response to the value for money risks identified within our audit plan addendum.	£3,830
Total		£8,080

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Fee variations are subject to PSAA approval.

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Council: Audit related services	
- Teachers Pension Grant Claim	£5,000
Pension Fund : Audit related services	
- IAS 19 Procedures for other bodies	£6,000

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 table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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