

Leicestershire County Council Leicestershire Pension Fund audit plan

Year ending 31 March 2021

Leicestershire County Council
Leicestershire Pension Fund
May 2021

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.



Contents



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Section	Page	
Key matters	3	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.
Introduction and headlines	4	
Significant risks identified	6	
Accounting estimates and related disclosures	10	
Other matters	13	
Materiality – County Council	14	
Materiality – Pension Fund	15	
Value for Money Arrangements – County Council	16	
Risks of significant VFM weaknesses	17	
Audit logistics and team	18	
Audit fees	19	
Independence and non-audit services	22	
Appendix 1: Revised Auditor Standards and application guidance	23	

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Key matters

Factors

Council developments

Local Government funding continues to be stretched with increasing cost pressures and demand from residents of Leicestershire. Before Covid-19, the 2020-24 MTFS savings requirements totalled £80m, with £39m of savings to be identified. The February 2021 update to the MTFS for 2021-25 shows a savings requirement of £80m of which £23m is unidentified at May 2021.

Impact of COVID 19 pandemic

The outbreak of the COVID-19 coronavirus pandemic has had a significant impact on the normal operations of the Council during 2020/21, with many facilities forced to close for periods of time and increases in demand for other services, not always as predicted. This has in turn had a significant impact on the Council's finances, with losses of income and increased expenditure in some areas, but reduced expenditure in others.

The government has provided a range of financial support packages throughout the COVID-19 pandemic. These include additional funding to support the cost of services or offset other income losses and also grant packages to be paid out to support local businesses. The accounting arrangements for specific support packages and grants, and related expenditure, in 2020/21 will vary depending on the nature of the funding and any conditions attached.

The Council implemented governance arrangements at the start of the pandemic to ensure tight controls were in place around the use of additional grant funding and expenditure. The Council is forecasting achievement of budgets for 2020/21.

The COVID-19 pandemic introduced significant uncertainty to the valuation of property, plant and equipment and investments. This led to valuers reporting a material uncertainty in relation to the valuation of properties held directly by both the Council and the Pension Fund as at 31 March 2020. We included Emphasis of Matter paragraphs in our 2019/20 audit opinions drawing attention to these material uncertainty disclosures in the financial statements.

Changes in IT systems

The Council and Pension Fund implemented a new financial ledger in 2020/21, with the move to Oracle Fusion going live from November 2020. The changes to the general ledger potentially represents a significant change to the accounting systems and processes in place for 2020/21

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, is to be agreed with the Assistant Director Strategic Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control – refer to page 5.
- We have rebutted the presumed fraud risk in relation to the recognition of income and expenditure for all areas other than the new COVID-19 related funding streams, and to Other Service Expenditure for the County Council– refer to page 5
- The Council's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the COVID 19 pandemic and this significant uncertainty may continue in 2020/21. We have identified a significant risk in regards to the valuation of properties for the County Council – refer to page 6.
- The 2019/20 financial statements for Leicestershire Pension Fund also included a material uncertainty disclosure in relation to the valuation of directly held properties, and this significant uncertainty may continue in 2020/21. We have identified a significant risk in regards to the valuation of the pension scheme net liability for the County Council, and to the valuation of level 3 investments held by the Pension Fund – refer to pages 7 and 9.
- We identified a significant audit risk relating to implementation of a new ledger system from November 2020 for both the County Council and the Pension Fund – refer to page 8. We have updated our planning materiality to take account of this change to financial systems – refer to page 13.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Leicestershire County Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Leicestershire County Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Corporate Governance committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Corporate Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

County Council and Pension Fund

- ISA240 management override of controls
- Implementation of new general ledger

County Council only

- ISA240 revenue and expenditure recognition risk due to impact of new COVID-19 related funding streams
- Valuation of property, plant and equipment
- Valuation of the pension fund net liability

Pension Fund only

- Valuation of Level 3 investments

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

County Council

We have determined planning materiality to be £12m (PY £11.9m) for the Council, which equates to approximately 1.5% (PY 1.5%) of your prior year gross expenditure for the year. Full details are set out on page 13.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.6m (PY £0.595m) for the County Council.

Pension Fund

We have determined planning materiality to be £29m (PY £29m) for the Pension Fund, which equates to 0.7% (PY 0.7%) of your prior year total assets. for the year. Full details are set out on page 14.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.45m (PY £1.45m) for the Pension Fund.

Value for Money arrangements – County Council

Our risk assessment regarding your arrangements to secure value for money have identified the following risk of significant weakness:

- Financial sustainability – delivery of savings and financial plans.

Introduction and headlines (continued)

Audit logistics

Our interim visit will take place in June 2021, and our final visit will take place in August to October 2021.

For 2020/21 we do not anticipate that we will be able to achieve the target sign off date under the Accounts and Audit (Amendment) Regulations 2021 of 30 September 2021, but anticipate that we will be able to issue our opinion in October 2021.

Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £107,602 (PY: £81,767) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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..

Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls (County Council and Pension Fund)	<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 Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, this was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> evaluate the design effectiveness of management controls over journals analyse the journals listing and determine the criteria for selecting high risk unusual journals test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
ISA240 revenue and expenditure recognition risk (County Council)	<p>ISA (UK) 240 includes presumed risks as follows:</p> <ul style="list-style-type: none"> Revenue recognition may be misstated due to the improper recognition of revenue. In the public sector, in line with the requirements of Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom - we also consider whether expenditure may be misstated due to the improper recognition of expenditure. These risks are rebuttable if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue or expenditure recognition. <p>We consider that we are able to rebut the presumed risks in relation to the majority of the Council's income, but are aware that the Council has been in receipt of material additional COVID-19 related income in 2020/21. Due to the varied funding conditions and accounting requirements associated with this income, we consider that we are unable to rebut the presumed risk in relation to these additional COVID-19 related income streams for 2020/21.</p> <p>Similarly we consider that we are able to rebut the presumed risk in relation to the majority of expenditure, but due to the impact of COVID-19 on Other Service Expenditure consider that we are unable to rebut the presumed risk in relation to this element of expenditure for 2020/21.</p>	<p>We will:</p> <ul style="list-style-type: none"> document our understanding of the full nature of additional COVID-19 related income and Other Service Expenditure for 2020/21 document processes and controls associated with these income and expenditure streams and tested their design effectiveness undertake detailed substantive testing on the income and expenditure streams in 2020/21 review the accounting treatment for all new income and expenditure streams to confirm that they have been accounted for appropriately in line with the Code and with accounting standards.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Property, Plant and Equipment (County Council)	<p>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.</p> <p>Additionally, valuations are significant estimates made by management in the accounts. The value of land and buildings held by the Council at 31 March 2020 was £568.9 million.</p> <p>Our 2019/20 opinion included an emphasis of matter paragraph drawing attention to disclosures included in the financial statements of a material uncertainty attached to property valuations as at 31 March 2020 due to the ongoing nature of the Covid-19 pandemic. This paragraph did not represent a modification of our audit opinion.</p> <p>We have identified the valuation of land and buildings and investment property as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engage an independent auditor's expert valuer to provide a further review of the reasonableness of the assumptions and approach taken by the Council's valuer • test a sample of valuations at 31 March 2021 to understand the information and assumptions used in arriving at any revised valuations. • test revaluations made during the year to see if they had been input correctly into the Council's asset register • review whether the expert valuer has reported any material uncertainty in relation to property valuations as at 31 march 2021 and, if so, assess the impact on disclosures in the financial statements and on our audit opinion.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability (County Council)	<p>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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£606.6 million in the Authority's balance sheet at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions.</p> <p>Our 2019/20 opinion included an emphasis of matter paragraph drawing attention to disclosures included in the financial statements which reported that, due to the impact of Covid-19 on the global financial markets, the valuation of the Pension Funds' investment properties were reported on the basis of material valuation uncertainty. This paragraph did not represent a modification of our audit opinion.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Update 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 • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • test 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 • undertake 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 • review whether the pension fund has reported any material uncertainty in relation to investment property valuations as at 31 March 2021 and, if so, assess the impact on disclosures in the financial statements and on our audit opinion • obtain assurances through our audit of Leicestershire 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.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Implementation of new general ledger</p> <p>(County Council and Pension Fund)</p>	<p>The Council has implemented a new financial ledger in 2020/21, with the move to Oracle Fusion going live from November 2020.</p> <p>The changes to the general ledger potentially represents a significant change to the accounting systems and processes in place for 2020/21 and as such has been identified as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • undertake a review of the implementation process for the new ledger, including of internal testing undertaken • review the Council's process for ensuring the data migration was complete and accurate • test the transfer of balances as at the date of implementation to gain assurance that balances have been completely and accurately transferred to the new ledger • document processes and controls around ledger processing, particularly in relation to journal processing, to assess the extent to which the implementation has impacted on the journal processing control environment and on the detailed controls for authorisation and processing of journals.
<p>Valuation of Level 3 investments</p> <p>(Pension Fund)</p>	<p>The Pension Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable 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>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020.</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>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes for valuing Level3 investments • Review 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 request year-end confirmations from investment managers and custodians • for a sample of investments, test 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 will evaluate the competence, capabilities and objectivity of the valuation expert • test revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register • where available review investment manager service auditor report on design effectiveness of internal controls.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Corporate Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuation of land and buildings and investment property
- Useful lives of property, plant and equipment
- Valuation of defined benefit net pension fund liabilities
- Fair values of borrowings
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of Level 3 investments (Pension Fund)

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered 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 point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainty is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we have made enquiries of management on the approach taken to derive key accounting estimates. A high level summary of the response was included in the “Informing the Audit Risk Assessment” document due to be presented to the Corporate Governance in June 2021. We will be seeking further detailed information on the Council’s approach as part of our ongoing audit work.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council’s website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 14).

Materiality – County Council

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

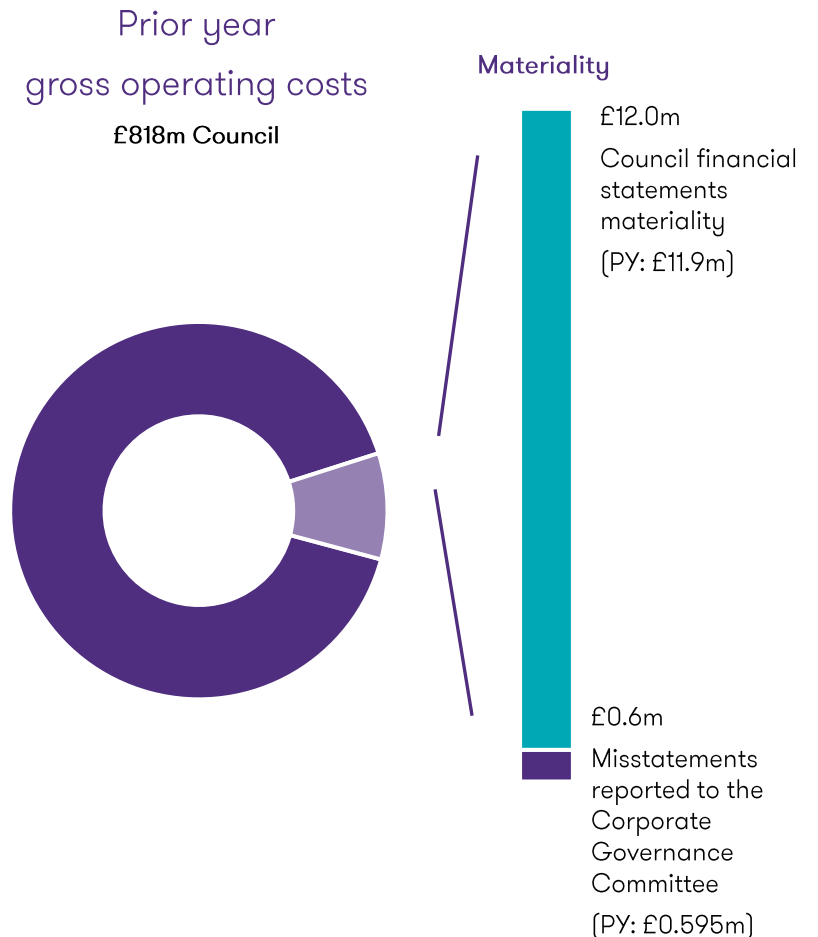
We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £12m (PY £11.9m) for the Council, which equates to 1.5% of your prior year gross expenditure for the year. For Senior Officers remuneration, we will agree figures to supporting evidence and will request amendment of differences which we consider would be of interest to a reader of the accounts.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Corporate Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.6m (PY £0.595m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Governance Committee to assist it in fulfilling its governance responsibilities.



Materiality – Pension Fund

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

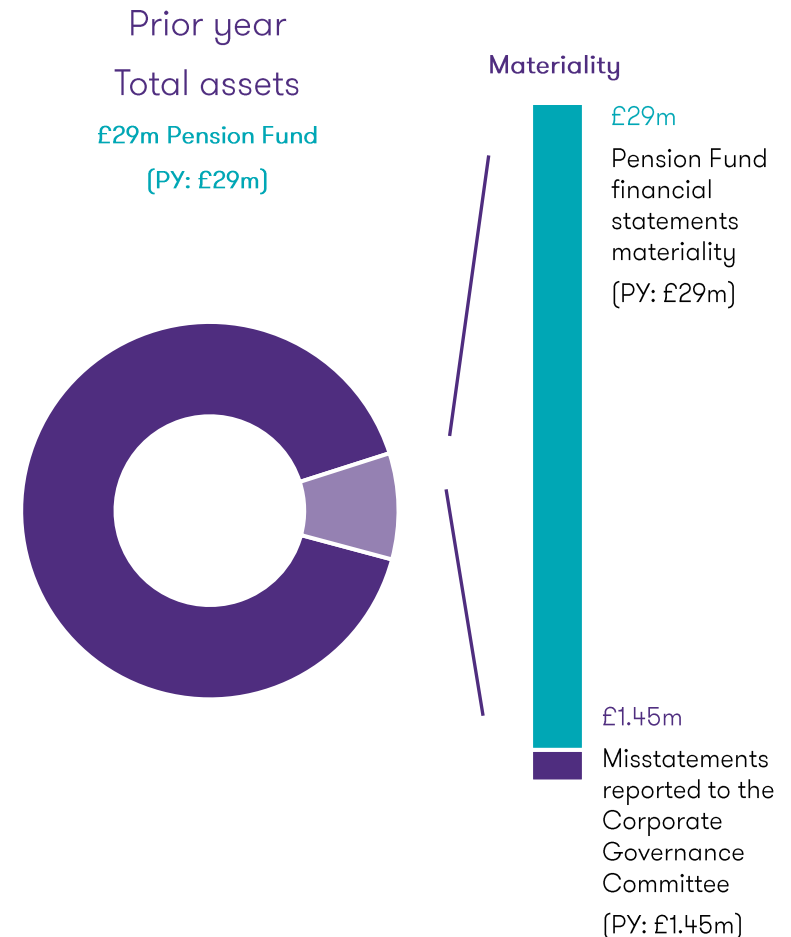
We have determined financial statement materiality based on a proportion of the gross expenditure of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £29m (PY £29m) for the Pension Fund, which equates to 0.7% of your total assets. For Senior Officers remuneration, we will agree figures to supporting evidence and will request amendment of differences which we consider would be of interest to a reader of the accounts.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Corporate Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.45m (PY £1.45m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Governance Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements – County Council

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require 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 three specified reporting criteria. These are as set out below:



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



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.



Financial sustainability – delivery of the MTFs, savings and financial plans.

Delivery of future savings is essential to the Council's to deliver a balanced medium term financial plan and to delivering required outcomes for the community.

We will review and assess the arrangements in place to monitor delivery of savings and development of the medium term financial plan.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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

Audit logistics and team



John Gregory, Director

Key contact for senior management and Audit Committee

John will oversee the implementation and delivery of the audit and will be the audit signatory. He will meet with senior management to help identify risks for the audit and provide advice and assistance as required.



Andy Reid, Senior Audit Manager

Andy will work with senior members of the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. He will attend Corporate Governance Committee with John, and will undertake reviews of the team's work and draft clear, concise and understandable reports.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2017, PSAA awarded a contract of audit for Leicestershire County Council to begin with effect from 2018/19. The fee agreed in the contract was £59,252. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 14, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £30,500. This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Leicestershire County Council Audit	£59,252	£81,767*	£107,602
Leicestershire Pension Fund Audit	£21,820	£25,530	£34,530

*Analysis of 2019/20 actual fees

Actual 2019/20 fees for the Council Council were made up of the amended scale fee of £77,102, plus additional one-off fee variances of £4,665 to total £81,767

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis – County Council

Scale fee published by PSAA	£59,252
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors/new standards and development	£5,000
Enhanced audit procedures for Property, Plant and Equipment, including use of an auditor's expert	£9,350
Enhanced audit procedures for Pensions	£3,500
Amended scale fee 2019/20	£77,102
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£19,000
Increased audit requirements of revised ISAs	£11,500
<i>Proposed increase to agreed 2019/20 fee</i>	£30,500
Total audit fees (excluding VAT)	£107,602

Confirmation of 2020/21 audit fees is subject to PSAA's independent fee determination.

Audit fees – detailed analysis – Pension Fund

Scale fee published by PSAA	£21,280
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors/new standards and development	2,500
Enhanced audit procedures for Level 3 Investments	1,750
Amended scale fee 2019/20	25,530
<i>New issues for 2020/21</i>	
Increased audit requirements of revised ISAs	9,000
<i>Proposed increase to agreed 2019/20 fee</i>	<i>9,000</i>
Total audit fees (excluding VAT)	34,530
Additional procedures – IAS19 (recharged by the Pension Fund to admitted bodies so not included above)	6,000

Confirmation of 2020/21 audit fees is subject to PSAA's independent fee determination.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Teachers' Pensions (County Council)	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £107,602 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.

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance




The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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