



## **CORPORATE GOVERNANCE COMMITTEE – 3 DECEMBER 2021**

### **EXTERNAL AUDIT OF THE 2020/21 STATEMENT OF ACCOUNTS, ANNUAL GOVERNANCE STATEMENT AND PENSION FUND ACCOUNTS**

#### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

##### **Purpose of Report**

1. The purpose of this report is to set out the key findings from the external audit of the 2020/21 financial statements and to seek the Committee's approval of the draft letters of representation.

##### **Background**

2. Grant Thornton UK LLP, the County Council's External Auditor, is required to communicate the results of the 2020/21 audit of the Council's financial statements to those charged with governance prior to certifying the financial statements. The draft 2020/21 Statement of Accounts, Annual Governance Statement (AGS) and Pension Fund Accounts can be viewed on the Council's website via the following link:-

<https://www.leicestershire.gov.uk/sites/default/files/field/pdf/2021/8/25/Statement-of-accounts-2020-2021.pdf>

3. A copy of the auditor's report is attached as Appendix A to this report.
4. Copies of the letters of representation for the County Council and Pension Fund are attached as Appendices B and C to this report for member consideration.
5. Barrie Morris, Audit Director from Grant Thornton UK LLP, responsible for the audit will attend the Committee meeting to communicate any significant findings and answer any questions.
6. The auditor has reviewed the financial statements and, whilst there are still a few minor areas of work to complete, the External Auditor anticipates issuing an unqualified opinion. The auditor will provide a verbal update at the meeting.
7. The financial statements have been produced in exceptional circumstances:
  - During 2020/21 the County Council implemented a new finance and human resource system, Oracle Fusion Cloud services. The finance modules went live part way through the financial year in November 2020 with the HR modules going live in April 2021.

- The Covid-19 pandemic resulted in both exceptional changes to working practices and a 25% one off increase in the amount of funding received by the County Council compared to the net revenue budget.
  - The level of audit testing has continued to increase compared to previous years.
8. The financial statements also include the Annual Governance Statement (AGS). The Code of Practice on Local Authority Accounting in the UK 2020/21, requires that significant events or developments relating to the governance system that occurred between the balance sheet date, 31 March, and the date on which the financial statements will be signed by the responsible financial officer, are reported. Despite the senior officer group initially determining for the draft AGS that there were no significant governance issues during 2020/21, it is now considered prudent and transparent to report three issues that have arisen since the balance sheet date. These are reported in Annex 2, within the updated AGS, attached as Appendix D. To summarise these are:
- The outcome of the Independent Inquiry into Child Sexual Abuse;
  - The pressures on the Adult Social Care budget;
  - The upwards re-assessment of projects within the capital programme.
9. The updated financial statements will be reported to the Council's Constitution Committee on the 7<sup>th</sup> December 2021 for signing. The External Auditor will then sign off the accounts.

### **Key Findings of the External Auditor**

10. Overall, there were no material issues raised in respect of the financial statements and the External Auditor anticipates issuing an unqualified opinion on the County Council and Pension Fund accounts.
11. There was one adjustment required to the main statements for both the County Council and Pension Fund Accounts. This related to the use of estimates for hard to value pension fund assets, mainly private equity where the actual valuations are not known until after the draft accounts have been produced. The accounts have been updated for the actual valuations.
12. During the audit, amendments were also made to a small number of Notes to the Accounts, as agreed with the External Auditor. The main amendments were:
- County Council (Note 2b) – the note had incorrectly grossed up movements to and from reserves.
  - Pension Fund (Note 20) – the fair value classification of some investment assets has been amended from level 1 to level 2. The levels relate to the quality and reliability of the information used to determine fair value.
13. The auditor has made four recommendations for improvements as shown in section A of their report.

Year-end bank reconciliations

14. Following the implementation of the new Oracle Fusion system part way through the financial year a number of new processes were implemented that have affected the timely clearance of differences. These have now been reduced and isolated to a number of smaller transactions and are being tackled as a priority to clear.

Year-end sales ledger reconciliation

15. In the same way as mentioned above, there are also new system reports available to reconcile balances. There is a small difference on the sales ledger ageing report that officers are working through. Additional work has been undertaken that provides assurance over the balances in the accounts, and that the issue relates to the aged debt report and or the timing of entries. Work is continuing to ensure the differences are resolved as a priority.

Pension Fund Annual Report

16. There was a small number of additional disclosures required by the new CIPFA guide on preparing the Annual Report that were not included in the 2020/21 Pension Fund Annual Report. These will be included in the 2021/22 report. The gaps in the 2020/21 report will be discussed with the Local Pension Committee when it meets to approve the Annual Report on the 26<sup>th</sup> November 2021. The audit opinion is not subject to completion of these disclosures.

IT Audit Report

17. As part of the external audit a specialist team within Grant Thornton undertook a detailed IT audit of the design and implementation of IT General Controls within the IT environment as they affect the financial statements and financial audit for the year ended 31st March 2021.
18. There was one recommendation reported that had a significant control deficiency. This related to the segregation of access in Oracle Fusion to make changes to both the development and production (live) system environments. There is a small number of the systems implementation partner and members of the internal systems admin team that have access to both environments. Access for the implementation partner has been necessary in order that they can implement the new Fusion system. This is required while the new system is being rolled out in phases and is scheduled to be completed in January 2022 when their access will be removed. Post go-live changes deployed to production are carried out by the systems admin team. This is a small team who have access to both development and production environments to carry out their duties. There are agreed procedures to manage these processes including monitoring changes. Further work will be undertaken to understand where controls can be further improved.

**Value for Money Arrangements**

19. On the 1 April 2020 the National Audit Office (NAO) introduced a new Code of Audit Practice for 2020/21. This included a revised and more detailed approach to the audit of the Value for Money (VFM).

20. The external audit of this area is underway and has not yet been completed. As a result the auditor will not be able to issue the annual audit report at this time. No significant weaknesses have been identified in arrangements to date, the auditor expects to issue the annual report by the end of January 2022.

### **Recommendations**

21. The Committee is asked to consider the issues raised in the auditor's report and approve the draft letters of representation.

### **Background papers**

22. None.

### **Circulation under the Local Issues Alert Procedure**

23. None.

### **Equality and Human Rights Implications**

24. There are no discernible equality and human rights implications.

### **Appendices**

Appendix A - External Auditor's Report  
Appendix B - Letter of Representation (County Council)  
Appendix C - Letter of Representation (Pension Fund)  
Appendix D - Revised Annual Governance Statement

### **Officer to Contact**

Mr C Tambini, Director of Corporate Resources,  
Corporate Resources Department,  
☎0116 305 6199 E-mail [Chris.Tambini@leics.gov.uk](mailto:Chris.Tambini@leics.gov.uk)

Mr D Keegan, Assistant Director (Strategic Finance and Property),  
Corporate Resources Department,  
☎0116 305 7668 E-mail [Declan.Keegan@leics.gov.uk](mailto:Declan.Keegan@leics.gov.uk)