



The Audit Findings for Leicestershire County Council and Leicestershire Pension Fund

Year ended 31 March 2021

24 November 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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This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Corporate Governance Committee.

Name : Barrie Morris

For Grant Thornton UK LLP

Date : 24 November 2021

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.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Leicestershire County Council ('the Council') and Leicestershire County Council Pension Fund ("the Pension Fund") for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's and Pension Fund's financial statements give a true and fair view of the financial position of the Council's and Pension Fund's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed on remotely during August to November 2021. Our findings are summarised on pages 4 to 25.

We have identified one adjustment to the financial statements that resulted in a £31.4m adjustment to the Council's Comprehensive Income and Expenditure Statement. The need for this adjustment arose as updated level 3 investment valuations became available for the Pension Fund after the draft accounts had been prepared. Audit adjustments are detailed in Appendix C.

We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- completion of testing on Land and Building valuations
- completion of testing on s106 balances
- completion of testing on grant income
- receipt of bank and investment confirmations
- manager, engagement lead and technical review of the final financial statements, including the narrative report
- receipt of management representation letter; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion for both the Council and the Pension Fund will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance.

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix E to this report. We expect to issue our Auditor's Annual Report by 31 January 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of financial sustainability relating to the delivery of the Medium Term Financial Strategy, savings and financial plans. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Auditor's report in December 2021.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Corporate Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's and the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Council's and the Pension Fund's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you on 4 June 2021

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Corporate Governance Committee meeting on 3 December 2021. These outstanding items include:

- completion of testing on Land and Building valuations
- completion of testing on s106 balances
- receipt of bank and investment confirmations
- manager, engagement lead and technical review of the final financial statements, including the narrative report
- receipt of management representation letter; and
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements



Our approach to materiality

The concept of 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.

For the County Council we have reduced materiality levels compare to those reported in our audit plan on 4 June 2021 to reflect the actual 2020/21 expenditure recorded in the draft financial statements.

For the Pension Fund we retained materiality at the level set in our audit plan.

We detail in the table below our determination of materiality for Leicestershire County Council and Pension Fund Council

	County Council (£000s)	Pension Fund (£000s)	Qualitative factors considered
Materiality for the financial statements	11,454	29,000	Reduced compared to 2019/20 of (£11.9m) to reflect impact of the implementation of a new general ledger.
Performance materiality	7,980	20,300	-
Trivial matters	570	1,450	-
Materiality for senior officer remuneration disclosures	20		- We determined that we would request amendment of any errors which would be of interest to readers of the accounts



2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p>Management override of controls [County Council and Pension Fund]</p> <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:</p> <ul style="list-style-type: none"> • 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 • gain 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 <p>Our review of journals included a separate analysis, risk assessment and testing of postings to the Oracle R12 ledger (covering the period April 2020 – October 2020) and the Oracle Fusion ledger (covering the period November 2020 – March 2021.)</p> <p>No issues arose from our work which we consider require reporting to the Corporate Governance Committee.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Improper revenue recognition (County Council)

ISA (UK) 240 includes presumed risks as follows:

- 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.

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.

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.

There were no changes to our risk assessment as reported in the audit plan.

For COVID-19 grant funding, we undertook detailed testing for a sample of grants:

- we considered whether the assessment by the Council on whether it was acting as principal or agent for the administration of the grant funding was based on a reasonable assessment of relevant factors such as who bears credit risk and responsibility for any overpayments, who determines the amount, who sets the criteria for entitlement, who designs the scheme and whether there are discretionary elements and whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income.
- reviewed whether the grant funding had been accounted for in line with the terms and conditions of the grant.
- for related specific expenditure, we reviewed the Council's for process for monitoring the use of grant funds for their prescribed purpose and ensured that this expenditure was included within the population used for expenditure testing.

Our work in this area is ongoing at the time of issue of this report.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings (County Council)

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.

Additionally, valuations are significant estimates made by management in the accounts. The value of land and buildings held by the Council at fair value at 31 March 2021 was £546.1 million.

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.

We have identified the valuation of land and buildings and investment property as a significant risk.

The Council used both an internal valuer and external valuer (Bruton Knowles LLP) for its asset valuations during 2020/21. The effective date of the valuation undertaken was 1 October 2020.

We undertook the following audit procedures;

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation experts used
- wrote to each valuer to confirm the basis on which the valuations were carried out
- engaged our own valuation specialists to review the terms of engagement and valuation approach for the Council's internal valuation team, and for the valuations undertaken by Bruton Knowles LLP
- challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding
- tested the full valuation at 1 October 2020 to understand the information and assumptions used in arriving at valuations, include review of detailed valuation calculations for a sample of assets
- reviewed management's assessment of the potential impact of movements in valuations between 1 October 2020 and 31 March 2021, which concluded that there had been no material movement in the valuations between these dates
- ensured that key data used as the basis for valuations (such as BCIS build cost information) was supported by external evidence
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register and that any revaluation movement had been correctly accounted for in the financial statements
- used valuation indices to review valuation movements for assets not revalued in 2020/21 to assess whether there was the potential for a material difference to have arisen between the carrying value of assets and current value.

We noted that the Council's valuers did not include a "material uncertainty" caveat in the 2020/21 valuations. Based on the input from our expert valuer and their review of the Council's valuation reports we concluded that it was a reasonable assessment. As a result a disclosure to this effect in the Council's financial statements, and an emphasis of matter paragraph in our audit opinion to draw attention to this disclosure, is not required for 2020/21.

Our work in this area is ongoing at the time of issue of this report.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of pension fund net liability (County Council)

The Council'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.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£835.5m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where the Fund's actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.

We undertook the following procedures:

- 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
- 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
- raised queries of management' expert in relation to their assumptions and approach
- reviewed whether the pension fund has reported any material uncertainty in relation to investment property valuations as at 31 March 2021
- 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.

Our work in this area is complete.

An adjustment to the draft accounts has been actioned following the receipt of updated 31 March 2021 valuations for elements of the pension fund's investment assets. As a result the increase in the share of pension fund assets for the Council is £31.4m. This has been adjusted in the financial statements and so is included on the schedule of adjusted misstatements included on page 34.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
<p>Implementation of new general ledger (County Council and Pension Fund)</p>	<p>We have obtained assurance on the transfer of balances to the Oracle Fusion ledger by:</p> <ul style="list-style-type: none"> • review of the Council's own reconciliation of balances • detailed comparison of balances between the closing Trial Balance for the Oracle R12 ledger and the opening position as per the Oracle Fusion ledger. <p>This testing confirmed that balances had been completely and accurately transferred to the new ledger system.</p> <p>In addition our IT audit specialists have undertaken a review of the project management arrangements relating to the implementation of the Oracle Fusion ledger. One significant weakness arose from this review which we have reported on page 19. We are satisfied that this did not impact on the 2020/21 financial statements. We have agreed and issued a separate report relating to other findings arising from the IT audit work.</p>
<p>Valuation of Level 3 investments (Pension Fund)</p>	<p>We have:</p> <ul style="list-style-type: none"> • 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. Reconciled those values to the values at 31 March 2021 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. <p>An adjustment to the draft accounts has been actioned following the receipt of updated 31 March 2021 valuations for elements of the pension fund's investment assets. This has resulted in an increase in the value of investments, and in the gain on investments during the financial year, of £35.5m.</p>

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £546.1m	<p>Land and buildings comprises £546.1m of assets held at fair value. Assets with a fair value of £261.6m were valued during 2020/21. Specialised assets such as schools and libraries were valued based on depreciated replacement cost (DRC) at year end. The remaining operational assets together with £0.9m of surplus assets and £1.7m of investment property have been valued on an open market value basis.</p> <p>All valuations were undertaken as at 1 October 2020 and a review then conducted by use of indices to assess whether any further material valuation movement would have occurred to 31 March 2021.</p> <p>Management has considered the year end value of those operational assets where were not revalued in 2020/21 by applying indices to update the valuations to 31 March 2021. Management's assessment of assets not revalued has identified no material change to the properties' values.</p> <p>In 2019/20 the Council's valuers reported a 'Material Valuation Uncertainty' clause as a result of the COVID-19 pandemic on asset valuations. For 2020/21 no similar clause has been included in the valuation. Based on the input from our expert valuer and their review of the Council's valuation reports we concluded that it was a reasonable assessment.</p> <p>Our work in review of the approach taken to the estimation of the valuation of land and building as at 31 March 2021 is ongoing.</p>	Our work in review of the approach taken to the estimation of the valuation of land and building as at 31 March 2021 is yet to be completed.	TBC

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Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Use of auditor's expert	Audit Comments	Assessment
Land and Building valuations – £546.1m	<p>We have used Wilkes Head and Eve as our auditor expert to assess the valuation approach adopted by the Council's internal valuer, and by Bruton Knowles LLP who were engaged to value elements of assets held at open market value. A summary of their findings is set out below</p> <p>Comment on the clarity of terms of engagement and instructions.</p> <p>Wilkes Head and Eve have confirmed that the terms of engagement and instructions issued to and agreed with the Council's internal valuation team are in line with process expectations and therefore are of the view that this element of the process has been covered effectively.</p> <p>The Council also agreed a formal letter of appointment with Bruton Knowles LLP setting out the terms and scope of their appointment.</p> <p>Commentary on the valuation process</p> <p>Wilkes Head and Eve concluded that the valuation process undertaken by both the Council's internal valuations team and by Bruton Knowles LLP were in all respects in line with expectations and met the requirements of relevant valuation guidance.</p>	No issues to raise relating to the Council's appointment of valuers and their management of their input to the valuation process.	Light purple

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Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £835.5m	<p>The Council's net pension liability at 31 March 2021 is £835.5m (PY £606.6m).</p> <p>The Council uses Hymans Robertson LLP to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £205m net actuarial loss during 2020/21.</p>	<p>We have:</p> <ul style="list-style-type: none"> assessed Hymans Robertson as management's expert to confirm their independence, objectivity and experience used PwC as and auditors expert to assess the assumptions made by actuary as set out below: <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2%</td> <td>1.95% - 2.05%</td> <td>✓</td> </tr> <tr> <td>Pension increase rate</td> <td>2.85%</td> <td>2.8% - 2.85%</td> <td>✓</td> </tr> <tr> <td>Salary growth</td> <td>3.35%</td> <td>2.8% – 3.8%</td> <td>✓</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.6 21.7</td> <td>21.8 – 24.3 20.4 – 22.7</td> <td>✓</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.9 24.2</td> <td>25.2 – 26.7 23.2 – 24.9</td> <td>✓</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2%	1.95% - 2.05%	✓	Pension increase rate	2.85%	2.8% - 2.85%	✓	Salary growth	3.35%	2.8% – 3.8%	✓	Life expectancy – Males currently aged 45 / 65	22.6 21.7	21.8 – 24.3 20.4 – 22.7	✓	Life expectancy – Females currently aged 45 / 65	25.9 24.2	25.2 – 26.7 23.2 – 24.9	✓	Light purple
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2%	1.95% - 2.05%	✓																								
Pension increase rate	2.85%	2.8% - 2.85%	✓																								
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Life expectancy – Males currently aged 45 / 65	22.6 21.7	21.8 – 24.3 20.4 – 22.7	✓																								
Life expectancy – Females currently aged 45 / 65	25.9 24.2	25.2 – 26.7 23.2 – 24.9	✓																								
		We identified no issues with the reasonableness of managements approach to the calculation of this material estimate.																									

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Assessment

- Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £62.4m	<p>Leicestershire County Council received significant levels of covid grant funding in 2020/21. This has been presented in the financial statements within a number of categories:</p> <ul style="list-style-type: none"> • Specific grants credited to services - £29.9m • General grants credited to taxation and non specific grant revenue - £34.5m <p>The Council assessed the appropriate accounting treatment and categorisation for each grant based on a review of the underlying grant conditions and an assessment of whether the Council had the discretion to determine who was eligible to receive the grant, the purpose of the grants use or the amounts to be provided. Where the Council's judgement was that it did have this discretion it has accounted for the grants in its financial statements' where it judged that it did not have this discretion it accounted for the grants on an agency basis.</p> <p>The Council concluded that it did not receive material levels of grant which required accounting for on an agency basis.</p>	<p>We undertook review of a sample of all grants received by the Council in 2020/21. and reviewed:</p> <ul style="list-style-type: none"> • the basis of the judgement made as to whether the grant was accounted for in the Council's financial statements, or on an agency basis. • completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income • impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. • adequacy of disclosure of judgement in the financial statements. <p>Our work in this area is ongoing.</p>	TBC

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision (MRP) - £6m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>During 2020/21 the Council changed the basis of calculation of the MRP from a 4% reducing balance approach for supported borrowing to a 40 year straight line basis. The Council considered that this represented a more appropriate approach. The total amount of MRP payable was not affected by this change but it did mean a reduction in the charge in earlier years compared to the previous reducing balance approach. This change was approved by full Council at their meeting on 25 February 2021.</p> <p>The year end MRP charge was £6.2m, compared to £10m in 2019/20.</p> <p>The CFR as at 31 March 2021 was £232.3m, compared to a total debt of £263m. As such the Council was "overborrowed" by £31m at 31 March 2021 but expects this situation to reverse as debt is repaid.</p>	<p>We reviewed whether:</p> <ul style="list-style-type: none"> changes to the policy on MRP had been appropriately discussed and agreed with the s151 officer and by the Council the MRP had been calculated in line with the revised policy whether the Council's policy on MRP complies with statutory guidance. the decrease in the MRP charge compared to 2019/20 was reasonable in the light of the change to the policy the calculations to support the 40 year estimated average remaining useful lives of assets were reasonable and supported. <p>Due to increased attention to the level of MRP charged by local authorities nationally we have also undertaken benchmarking of the level of provision made. Initial analysis of the results of this benchmarking do not highlight a potential issue for Leicestershire County Council.</p> <p>Based on the above assessment we consider that management's estimate is reasonable.</p>	Light purple

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Assessment

- Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – other matters arising

Matter arising

Auditor commentary

County Council – grossing up of income and expenditure.

During testing of fees and charges and other operating expenditure, we noted £21.9m of transfers to reserves which had incorrectly been included in income and expenditure in note 2, Expenditure and Funding Analysis, for 2020/21.

The Council has amended the financial statements to correct this issue, as set out on the schedule of adjusted misstatements on page 34 – disclosure and classification amendments. The adjustment related only to this disclosure note and did not impact on the CIES.

Pension Fund - Classification of investment assets

We reviewed the classification of other investment assets as part of our audit procedures during 2020/21.

The majority of investment assets were classified as “level 1” in the draft financial statements. Following discussion with management we agreed that a proportion of these assets would be reclassified to “level 2” due to their nature.

The total adjustments to the figures for financial assets at fair value were:

	Level 1 £m	Level 2 £m
Per draft accounts	3,433.1	0
Agreed amended accounts	2,403.0	1,030.1

An amendment has been agreed to the pension fund accounts in relation to this issue.

2. Financial Statements – other matters arising

Matter arising

Pension Fund – Annual Report

We have reviewed the information included within the Pension Fund Annual Report to ensure that it was consistent within the financial statements and complied with the guidance issued by CIPFA.

Auditor commentary

We identified some “must do” requirements as set out in the CIPFA guidance – “Preparing the annual report – Guidance for Local Government Pension Scheme Funds (2019 Edition)” which had not been included in the 2020/21 Pension Fund Annual Report. Whilst this does not impact on our opinion on the Annual Report, as we are only required to report on inconsistencies between the Annual Report and the financial statements, we have raised a recommendation relating to compliance with CIPFA guidance in this area. Further details are set out on page 31.

The “must do” requirements not included were:

Financial performance –

- current year performance against budget
- forecast v outturn report on the pension fund cash flows
- details of pension overpayments, recoveries and any amounts written off, including the results of participation in (NFI) exercises (data matches, overpayments identified, actions taken, etc).

Pension scheme administration

- details of new pensioners analysed by ill health, early and normal retirements.
- a statement on Value for Money

Dealings with employer bodies

- a summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities).

In addition, a number of other “should” and “may” requirements were not included.

We have recommended that the Pension Fund review the disclosures included in the Annual Report in future years to ensure full compliance with CIPFA guidance on its contents.

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
●	<p>Inappropriate segregation of duties as developers have access to the production environment</p> <p>We noted that 21 users from Evosys (who are supporting in implementation of Oracle Fusion) and EMSS (who are an entity formed in partnership with Leicestershire County council for rendering Tech support to Oracle) had been granted “IT Security Manager” access rights for both the development and production environments.</p> <p>We understand that due to the limited number of staff able to develop and implement changes and the inability to split these roles, it has not been considered possible to segregate these roles.</p> <p>Independent monitoring to identify and validate any changes made by these users is not completed.</p> <p>Risks</p> <p>The combination of access to develop and implement those changes in the production environment creates a risk that inappropriate or unauthorized changes are made to data and/or programs.</p> <p>Impact on the financial statements audit</p> <p>Due to the potential risk that this control weakness presents, the audit team have undertaken a review of all journal postings made by Evosys and EMSS users. No inappropriate journal postings were identified which would impact on the 2020/21 financial statements.</p>	<p>It is recommended that:</p> <ul style="list-style-type: none"> • Management should segregate a user’s ability to develop and implement changes. Privileged access to the production environment should be revoked from users that are involved in development. • If for operational reasons access cannot be fully segregated, a risk assessment should be undertaken, documented and formally accepted. Alternative options to mitigate the risk could include performing a review of change implementation activity logs. These should be regularly reviewed for appropriateness by an independent individual with evidence retained. <p>Management response</p> <p>This was as a result of the split go live schedule. This means that there is continued development work carried out in the production environment as the implementation of Oracle Fusion is being rolled out until all the partners (LCC and Nottingham City Council) go live, currently scheduled to complete at the end of January 2022. At that time access for the implementation partner to the production (live) environment will be removed.</p> <p>There is an agreement in place with the system implementation partner that they will only implement development that has been approved to the production environment. Post go-live changes deployed to production are carried out by the systems admin team in EMSS. This is a small team who have access to both development and production environments. There are agreed procedures to manage these processes including monitoring changes. Where unauthorised changes are found access will be removed immediately. Further work will be undertaken to understand where controls can be further improved.</p>

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations						
	<p>Year end bank reconciliations</p> <p>During our testing of year end bank and cash balances we noted that the Council had not fully completed the bank reconciliation for the General County Fund bank account and the Salaries bank account as at 31 March 2021. The unreconciled differences were:</p> <ul style="list-style-type: none"> • General County Fund account - £67,725.02 • Salaries account - £33,711.93. <p>Following further investigation finance staff have reduced the unreconciled difference on the General County Fund account to £10,504.72.</p>	<p>The full completion of bank reconciliations on a monthly basis, with all reconciling items full investigated and cleared, is a key control which should be exercised routinely.</p> <p>Finance staff should fully reconcile all Council bank accounts on a monthly basis, and investigate and clear all reconciling items.</p> <p>Management response</p> <p>Agreed. All bank accounts are reconciled monthly, but following the mid-year implementation of the new Oracle Fusion ERP there have been a number of changes in the way some processes operate across finance and payroll which have affected the timely clearance of reconciliation differences.</p> <p>Progress has already been made in the current financial year to reduce the differences and provide assurance that the amounts are related to timing differences and small value transactions. Work is continuing to ensure the residual differences are cleared.</p>						
	<p>Year end sales ledger control account reconciliation</p> <p>During testing of the year end sales ledger balance, we noted differences between the total sales ledger figure per the general ledger and the total as per the aged debt report provided to support the balance. The figures were:</p> <table border="0"> <tr> <td>General ledger balance</td> <td>- £47,568,039</td> </tr> <tr> <td>Figure per aged debt report</td> <td>- £47,590,074</td> </tr> <tr> <td>Difference</td> <td>- £22,035</td> </tr> </table>	General ledger balance	- £47,568,039	Figure per aged debt report	- £47,590,074	Difference	- £22,035	<p>The full completion of sales ledger control account reconciliations on a monthly basis, with all reconciling items full investigated and cleared, is a key control which should be exercised routinely.</p> <p>Finance staff should fully and routinely reconcile the general ledger balance to the sales ledger, and investigate and clear all reconciling items.</p> <p>Management response</p> <p>Agreed. The sales ledger reconciliation is reconciled monthly, but following the mid-year implementation of the new Oracle Fusion ERP there have been a number of changes in the way some processes operate across the finance module, together with new system reports, which have resulted in some differences within the detailed report.</p> <p>Additional work has been undertaken that provides assurance that the balances are correct in the ledgers, and that the issues now relate to the aged debt report and /or the timing of entries. Work is continuing to ensure the differences are resolved timely.</p>
General ledger balance	- £47,568,039							
Figure per aged debt report	- £47,590,074							
Difference	- £22,035							

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

3. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Corporate Governance Committee. We have not been made aware of any material actual or suspected frauds in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council and the Pension Fund.

3. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	<p>We requested from management permission to send confirmation requests relating to year end investment and bank balances. This permission was granted and the requests were sent.</p> <p>At the date of issue of this report a number of these confirmations had not yet been received. We continue to chase these responses with the support of Council officers.</p>
Accounting practices	<p>We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.</p>
Audit evidence and explanations/ significant difficulties	<p>All information and explanations requested from management was provided.</p>

3. Financial Statements - other communication requirements



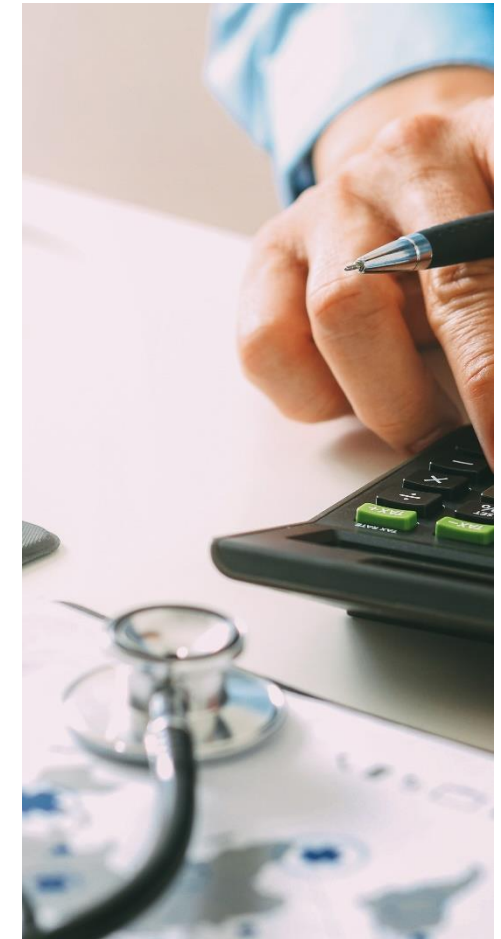
Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council and the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the Pension Fund and the environment in which they operates the Council's and the Pension Fund's financial reporting framework the Council's and the Pension Fund's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

4. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>We note some “must do” requirements as set out in the CIPFA guidance – “Preparing the annual report – Guidance for Local Government Pension Scheme Funds (2019 Edition) which had not been included. Whilst this does not impact on our opinion on the annual report, as we are only required to report on inconsistencies between the annual report and the financial statements, we have raised a deficiency and recommendation relating to compliance with CIPFA guidance in this area. Further details are set out on pages 18 and 30.</p> <p>At the time of issue of this report we are yet to complete our review in this area.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. <p>We have nothing to report on these matters.</p>



4. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>The 2020/21 WGA Data Collection Tool is not yet available and is not expected to be so until at least December 2021. As such we have not yet undertaken work on the Council's 2020/21 WGA submission.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2020/21 audit of Leicestershire County Council and Leicestershire Pension Fund in the audit report, as detailed in Appendix E, due to incomplete and Whole of Government Accounts and Value for Money work.</p>

5. Value for Money arrangements

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.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at 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 the three specified reporting criteria.



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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are 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

5. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix E to this report. We expect to issue our Auditor's Annual Report by 31 January 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risk set out in the table below. Our work on this risk is underway and an update is set out below.

Risk of significant weakness

Work performed to date

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

We have

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.

- reviewed the Council's financial and savings plans and other information relevant to the arrangements for delivery of financial sustainability.
- undertake a range of interviews with Council officers to further assess the arrangements in place.

To date, no evidence of significant weaknesses in arrangements has been identified.

6. Independence and ethics

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 and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard 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.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

6. Independence and ethics

Audit and 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 and the Pension Fund. The following non-audit services were identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Corporate Governance Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified four recommendations for the Council and pension fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

We have agreed and issued a separate report for the IT audit work setting out further lower priority recommendations and management response.

Assessment	Issue and risk	Recommendations
<p>●</p>	<p>Inappropriate segregation of duties as developers have access to the production environment</p> <p>The combination of access to develop and implement those changes in the production environment creates a risk that inappropriate or unauthorized changes are made to data and/or programs.</p>	<p>It is recommended that:</p> <ul style="list-style-type: none"> • Management should segregate a user's ability to develop and implement changes. Privileged access to the production environment should be revoked from users that are involved in development. • If for operational reasons access cannot be fully segregated, a risk assessment should be undertaken, documented and formally accepted. Alternative options to mitigate the risk could include performing a review of change implementation activity logs. These should be regularly reviewed for appropriateness by an independent individual with evidence retained. <p>Management response</p> <p>This was as a result of the split go live schedule. This means that there is continued development work carried out in the production environment as the implementation of Oracle Fusion is being rolled out until all the partners (LCC and Nottingham City Council) go live, currently scheduled to complete at the end of January 2022. At that time access for the implementation partner to the production (live) environment will be removed.</p> <p>There is an agreement in place with the system implementation partner that they will only implement development that has been approved to the production environment. Post go-live changes deployed to production are carried out by the systems admin team in EMSS. This is a small team who have access to both development and production environments. There are agreed procedures to manage these processes including monitoring changes. Where unauthorised changes are found access will be removed immediately. Further work will be undertaken to understand where controls can be further improved.</p>

Key

- High priority – Significant effect on financial statements
- Medium priority – Limited effect on financial statements
- Low priority – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
●	<p>Year end bank reconciliations</p> <p>The full completion of bank reconciliations on a monthly basis, with all reconciling items full investigated and cleared, is a key control which should be exercised routinely.</p>	<p>Finance staff should fully reconcile all Council bank accounts on a monthly basis, and investigate and clear all reconciling items.</p> <p>Management response</p> <p>Agreed. All bank accounts are reconciled monthly, but following the mid-year implementation of the new Oracle Fusion ERP there have been a number of changes in the way some processes operate across finance and payroll which have affected the timely clearance of reconciliation differences.</p> <p>Progress has already been made in the current financial year to reduce the differences and provide assurance that the amounts are related to timing differences and small value transactions. Work is continuing to ensure the residual differences are cleared.</p>
●	<p>Sales ledger control account reconciliations</p> <p>The full completion of sales ledger control account reconciliations on a monthly basis, with all reconciling items full investigated and cleared, is a key control which should be exercised routinely.</p>	<p>Finance staff should fully and routinely reconcile the general ledger balance to the sales ledger, and investigate and clear all reconciling items.</p> <p>Management response</p> <p>Agreed. The sales ledger reconciliation is reconciled monthly, but following the mid-year implementation of the new Oracle Fusion ERP there have been a number of changes in the way some processes operate across the finance module, together with new system reports, which have resulted in some differences within the detailed report.</p> <p>Additional work has been undertaken that provides assurance that the balances are correct in the ledgers, and that the issues now relate to the aged debt report and /or the timing of entries. Work is continuing to ensure the differences are resolved timely.</p>
●	<p>Pension Fund Annual Report</p> <p>We identified some “must do” requirements as set out in the CIPFA guidance – “Preparing the annual report – Guidance for Local Government Pension Scheme Funds (2019 Edition) which had not been included in the 2020/21 Pension Fund Annual Report.</p>	<p>We recommend that the Pension Fund review the disclosures included in the Annual Report going forward to ensure full compliance with CIPFA guidance on its contents.</p> <p>Management response</p> <p>Agreed, the new requirements introduced by the CIPFA guidance will be implemented in the Annual Report for 2021/22. Gaps in the 2020/21 report will be completed or discussed with the Pension Committee.</p>

Key

- High priority – Significant effect on financial statements
- Medium priority – Limited effect on financial statements
- Low priority – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Leicestershire County Council's 2019/20 financial statements, which resulted in 2 recommendations being reported in our 2019/20 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>School Bank Reconciliations not carried on the 31 March 2020</p> <p>Our audit testing found that there were a few schools who completed their bank reconciliations before the year end of 31 March 2020, and there were some trivial differences between what they reported in their reconciliation compared to the year end position. We recommended that the Council should require all schools to complete their bank reconciliations as at 31 March (or as close as possible) in future years, to be in line with the reporting year end of the Council.</p>	No issues were noted with school bank reconciliations as at 31 March 2021.
✓	<p>Information Technology Audit</p> <p>Our IT specialist noted several weaknesses in relation to the operation of the Oracle ledger system, which management were addressing in the move to the Fusion Cloud Platform.</p>	<p>Our IT auditors have issued an updated report for 2020/21 following the implementation of the Fusion Cloud Platform.</p> <p>We will report the findings from this report separately to you.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

C. Audit Adjustments – County Council

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Impact on total net expenditure £m
Amendment to pension share of net assets	31.4	31.4	31.4
Overall impact	£31.4	£31.4	£31.4

Misclassification and disclosure changes

Note 2 – Expenditure and Funding Analysis

Incorrect grossing up of income and expenditure - £21.9m

We will provide full details of all agreed misclassification and disclosure changes on finalisation of our review of the financial statements.

C. Audit Adjustments – Pension Fund

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Impact on total net expenditure £m
Amendment to level 3 asset valuations	35.5	35.5	35.5
Overall impact	£35.5	£35.5	£35.5

Misclassification and disclosure changes

Reclassification of investment assets – assets reclassified from “level 1” to “level 2” - £1,030.1m

We will provide further details of all agreed misclassification and disclosure changes on finalisation of our review of the financial statements.

C. Audit Adjustments



Impact of unadjusted misstatements

None identified above our trivial threshold.

Impact of prior year unadjusted misstatements

None identified above our trivial threshold.

D. Fees

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

The fees reconcile to the financial statements.

Audit fees	Proposed fee £	Final fee
Council Audit	107,602	TBC
Pension Fund Audit	34,530	TBC

The scale fee for the Council audit is £59,252. The proposed fee of £107,602 includes a fee uplift for our financial statements at audit work of £29,350 and for VFM work of ££19,000, as set out in our Audit Plan.

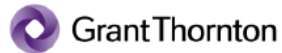
The scale fee for the Pension Fund audit is £21,280. The proposed fee of £34,530 includes a fee uplift for our financial statements at audit work of £13,250, as set out in our Audit Plan.

The final fees are subject to approval by PSAA.

Non-audit fees for other services	Proposed fee	Final fee
Teachers Pension Certification (council)	5,000	5,000
IAS19 Assurance Letters (Pension Fund)	6,000	6,000

E. Audit letter in respect of delayed VFM work (to be added)

Commercial in confidence



Our ref:
Your ref:

Cllr Tom Barkley
Chair of Corporate Governance Committee
Leicestershire County Council
120-124 Milton Street
Walsall
WS1 4LN

24 November 2021

Dear Councillor Barkley

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

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As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 January 2022.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Barrie Morris

Barrie Morris
Director - For Grant Thornton UK LLP

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