

Leicestershire County Council Leicestershire Pension Fund Indicative Audit Plan 2021/22

Year ending 31 March 2022

May 2022



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit 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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Introduction

This document provides an overview of the indicative planned scope and timing of the statutory audit of Leicestershire County Council ('the Council') and Leicestershire Pension Fund ('the Pension Fund') for those charged with governance. It sets out the risks that we anticipate will drive the focus of our audit based on our knowledge of the Council from the prior year and discussions with management. It is important to note that our risk assessment is an iterative process and we will revisit our assessment on an ongoing basis bringing any new risks to your attention if and when they arise.

We will provide our formal Audit Plan for consideration subsequent to completion of our detailed 2021/22 audit planning. We anticipate that our planning work will be completed in June 2022 and that we will be able to start the financial statements audit in July 2022.

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 agreed engagement letter and addendum to the contract. 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 we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

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 activities and is risk based.



Financial Statements Audit 2021/22

Materiality

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.

The materiality levels set for our 2021/22 financial statements audits at the planning stage are:

County Council – £11.45m

Pension Fund - £29m.

Significant risks

Although we have started our planning work we are not at a stage where we can formally confirm the significant risks that we will be auditing. However, the sections below indicate likely areas on which we expect to focus our work.

Presumed significant risks – County Council and Pension Fund

ISA (UK) 240 includes two presumed risks as follows:

- Revenue recognition may be misstated due to the improper recognition of revenue. This is a rebuttable risk if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. We will consider the risk factors set out in ISA240 and the nature of the revenue streams at the Council to determine whether there is a risk of fraud from revenue recognition. In 2020/21 we focussed this risk on revenue relating to COVID grant funding for the Council, but consider that we could rebut the presumed risk for the Pension Fund due to the level and nature of revenue recorded.
- The risk of management over-ride of controls is present in all entities. The need to achieve a particular financial outturn could potentially place management under undue pressure in terms of how they report performance. This significant risk will apply for both the County Council and the Pension Fund.

County Council significant risks

Valuation of land and buildings – The Council is required to revalue its land and buildings on a sufficiently frequent basis to ensure that the carrying value in the financial statements it not materially difference from the current value at the financial statements date. To achieve this, the Council requests valuations from its valuation experts. This valuation represents a significant estimate by management in the financial statements due to the value involved and the sensitivity of this estimates to changes in key assumptions. It is expected that the valuation of land and buildings will continue to be identified as a significant risk in 2021/22

Valuation of the local government pension fund net liability - 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 estimate is highly sensitive to changes in key underlying assumptions, such as discount and mortality rates, and these assumptions are subjective and require input from specialist actuaries on an annual basis. It is expected that the valuation of the net pension liability will continue to be identified as a significant risk in 2021/22.

Pension Fund significant risks

Valuation of level 3 investments - 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. 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

Financial Statements Audit 2021/22

Informing the audit risk assessment

To inform our planning we have completed a paper setting out responses from management to a series of questions posed across the themes of fraud, laws and regulations, going concern, related parties and accounting estimates.

The paper including these responses from management has been included as a separate agenda item for the Corporate Governance Committee.

Other expected areas of focus

- **Infrastructure assets** - The Code requires infrastructure to be reported in the Balance Sheet at historic cost less accumulated depreciation and impairment and that where there is 'enhancement' to the assets, that the replaced components are derecognised. Where authorities are not fully compliant with these requirements, there may be a risk of material misstatement. CIPFA has set up an urgent task and finish group to consider this issue, with a view to produce a bulletin and possible amendments to the accounting code by June 2022.
- **East Midlands Freeport** - the County Council are due to act as the accountable body in the East Midlands Freeport arrangement, which will involve a range of other public and private sector partners. The Freeport is due to go live in 2022 and it's establishment is likely to give rise to a number of accounting, audit and governance issues which we will work through with officers.
- **Expenditure recognition** - In line with the Public Audit Forum Practice Note 10 in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition. In 2020/21 we identified a significant risk for expenditure related to the use of specific COVID grant funding by the County Council. We anticipate that a similar significant risk is likely to be identified for 2021/22.
- **Accounting estimates** - We have previously provided information to the Committee on the new accounting standard on Estimates. This raises the bar in terms of what both we and management are required to do. For our 2020/21 audit this meant an increased focus on large and complex accounting estimates such as the valuation of land and buildings, and this will continue for 2021/22. This will also apply to any other material estimates made by management.

Value for Money 2021/22

As part of our planning work, we will consider whether there are any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we need to perform further procedures on. We may need to make recommendations following the completion of our work and will follow up the recommendations made in our 2020/21 Auditor's Annual Report.

Risks of significant weakness

We have not yet undertaken our planning assessment, and therefore cannot confirm the risks we will be considering.

However, we anticipate following up on the risks we reported against as part of the 2020/21 review relating to financial sustainability.

In total we made eight improvement recommendations in our 2020/21 Auditors Annual Report, covering financial sustainability, governance and securing economy, efficiency and effectiveness. We will follow up on the actions taken in response to our recommendation as part of our 2021/22 work.

Potential types of recommendations

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



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

Appendices

Appendix 1: Financial Reporting Council annual report

On 29 October, the Financial Reporting Council (FRC) published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here:

[FRC AQR Major Local Audits October 2021](#)

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our "Opinion" results over the past three years are shown in the table below:

Grade	Number 2020/21	Number 2019/20	Number 2018/19
Good with limited improvements (Grade 1 or 2)	6	1	1
Improvements required (Grade 3)	3	5	2
Significant improvements required (Grade 4)	0	0	1
Total	9	6	4

Our "VFM" results over the past two years are shown in the table below. The FRC did not review VFM in 2018/19:

Grade	Number 2020/21	Number 2019/20
Good with limited improvements (Grade 1 or 2)	6	6
Improvements required (Grade 3)	0	0
Significant improvements required (Grade 4)	0	0
Total	6	6

Appendix 1: Financial Reporting Council annual report (cont.)

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID-19, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic.

As auditors we have had to show compassion to Council staff affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Introducing a formal and consistent process for considering the impact of complex technical issues for individual audits.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits and society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

Appendix 2: Auditing developments

There are changes to the following ISA (UK):

- ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement' - This will impact audits of financial statement for periods commencing on or after 15 December 2021.
- ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements' - This will impact audits of financial statement for periods commencing on or after 15 December 2022.
- ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' - This will impact audits of financial statement for periods commencing on or after 15 December 2021.

A summary of the impact of the key changes on various aspects of the audit is included below:

Area of change	Impact of changes
Risk assessment	<ul style="list-style-type: none"> • The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	<ul style="list-style-type: none"> • Greater responsibilities, audit procedures and actions are assigned directly to the engagement lead, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	<ul style="list-style-type: none"> • The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	<ul style="list-style-type: none"> • The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	<ul style="list-style-type: none"> • The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	<ul style="list-style-type: none"> • The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

Appendix 3: 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 for the County Council, and £21,280 for the Pension Fund.

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 3, the 2020/21 Code introduced 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. Our 2020/21 audit plan set out the level of additional fees required to deliver this work; this expanded approach to the VFM assessment continues for 2021/22.

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 2021/22 financial statements, as detailed in Appendix 2.

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 2021/22, as set out below. We have included an uplift to the 2021/22 fee to take account of expected additional work relating to infrastructure assets. This is an estimate and will be revisited when CIPFA publish further guidance and a potential update to the Code in relation to infrastructure assets which is expected in June 2022.

We have prepared our fee proposal on the assumption that for 2021/22 we will return to onsite working for a significant proportion of our audit time, subject to agreement of specific arrangements with officers. Should this not be possible we would need to charge an additional fee of c £10,000 to cover the inefficiencies likely to arise should a remote audit be necessary.

	Actual Fee 2019/20	Actual fee 2020/21	Proposed fee 2021/22
Leicestershire County Council audit fee	£81,767	£107,602	£114,715
Leicestershire Pension Fund audit fee	£25,530	£34,530	£33,193

Assumptions

In setting these fees, we have assumed that the Council and the Pension Fund 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.

Appendix 3: Audit fees

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 County Council and the Pension Fund.

Other services

The following other service provided by Grant Thornton was identified, as detailed in the table.

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 Pension Return (County Council)	5,500	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 £5,500 in comparison to the total fee for the audit of £114,715 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.
IAS 19 assurances (Pension Fund)	6,500	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 £6,500 in comparison to the total fee for the audit of £33,193 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.



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