

# Informing the audit risk assessment for Leicestershire County Council and Pension Fund 2021/22

**Mark Stocks**  
Partner  
T 0121 232 5437  
E [mark.c.stocks@uk.gt.com](mailto:mark.c.stocks@uk.gt.com)

**Andy Reid**  
Senior Manager  
T 07901 706575  
E [andy.s.reid@uk.gt.com](mailto:andy.s.reid@uk.gt.com)

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Council and Pension Fund's external auditors and the Council's Corporate Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Corporate Governance Committee under auditing standards.

## Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Corporate Governance Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Corporate Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Corporate Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Corporate Governance Committee and supports the Corporate Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Corporate Governance Committee's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from the Council and Pension Fund's management. The Corporate Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

# General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>The impact of Covid19 continues to have a significant impact on the financial statements; uncertainties around ongoing costs and levels of support provided by the County Council, future levels of funding, local through Council Tax and Business Rates income, and also from central government.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by the Council / Pension Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>These have been reviewed and align with the Code of Practice. No changes are needed for 2021/22. However, additional disclosures will be made in the Narrative Statement and the Notes to the Accounts to explain future funding uncertainties as at the balance sheet date.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>The Council and Pension Fund use financial instruments, Investments, borrowing, cash, debtors etc – there are no fundamental changes in use compared with previous years.</p> <p>The Council holds no derivatives.</p> <p>The Pension Fund has derivatives, the largest being forward foreign exchange contracts (US dollars only) - held for risk management purposes from expected changes in the value of currencies relative to each other – same as previous years.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business?</p>	<p>No, other than some specific additional support around the impact of Covid-19.</p>

## General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
6. Are you aware of any guarantee contracts?	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Council / Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>Where necessary, the Council uses external solicitors to supplement its in-house legal resource. External resource is most commonly used to deal with unusually high value or complex litigation (including on matters which in-house solicitors are not authorised by external insurers to conduct) or alternatively to undertake major transactional work or to provide specialist advice.</p> <p>Where legal work is externalised (other than to barristers), the Council tends to use major regional firms to deal with any contentious or non-contentious work. Most frequently, the Council instructs firms of solicitors on the East Midlands Law Share panel. Those firms include Weightmans LLP, Browne &amp; Jacobson LLP. In addition, the Council has engaged Bevan Brittan LLP in relation to substantial commercial transactions or on specialist procurement matters. The Council has used Squire Patten Boggs and Evershed's Sunderland to provide specialist pensions advice.</p> <p>Civil litigation claims (such as claims in tort for alleged historical abuse) can be brought forward along after the expiry of the limitation period and certain of those claims are still continuing. Some work is also be externalised by the Council in the area of Childcare law. The externalisation of this work has been historically been due to capacity reasons. This work is typically transferred to two specialist local firms.</p>

## General Enquiries of Management

Question	Management response
9. Have any of the Council's / Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	The Council uses external advisors from time to time to advise on various aspects of its operations. These are all part of normal business operations. However these are not that significant to report.
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	No



# Fraud

## Issue

### Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Corporate Governance Committee and management. Management, with the oversight of the Corporate Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Corporate Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Council and Pension Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Corporate Governance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Corporate Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Corporate Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council and Pension Fund's management.

# Fraud risk assessment

Question	Management response
<p>1. Have The Council and Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>Yes. Continually assessed via a number of indicators: Effective monthly budget monitoring and challenge through empowering budget managers to be accountable for their cost centres. Review by Finance Business Partners and Corporate Finance.</p> <p>Effective Finance and Internal Audit function.</p> <p>Regular bank and control account reconciliations overseen by Corporate Finance.</p> <p>Balance scorecard of key controls reported to Chief management and departmental management teams.</p> <p>The Internal Audit Service undertakes a biennial fraud risk assessment (FRA). The lead officer for this is the Head of Internal Audit &amp; Assurance Service (HoIAS) and the FRA is tabled at the Corporate Governance Committee (tabled at November 2020 committee). The fraud risk assessment process seeks to identify, and score relative to one another, the fraud risks facing the County Council. Scores are derived from discussions with key service leads, departmental risk champions and from both local and national fraud intelligence. Subsequently, the results of the fraud risk assessment are used to inform the annual Internal Audit planning process, i.e. in order that audit resources are targeted to those areas of perceived higher risk.</p> <p>The Council is a mandatory participant in the National Fraud Initiative (NFI), a nationwide data-matching exercise that is repeated biennially. The results of the latest exercise were received back in February 2021 with potential anomalies investigated further on a risk-assessed basis. Each November the Council takes the opportunity during International Fraud Awareness Week to make staff aware of NFI, and how it works to identify suspected fraud, as an active deterrent to fraud.</p>

# Fraud risk assessment

Question	Management response
	<p>The Internal Audit Service has two Accredited CIPFA Counter Fraud Technicians. Part of their role includes attendance at regional fraud group meetings involving other county and unitary councils. This is one example of how fraud intelligence is shared, i.e. frauds affecting other councils that we need to be mindful of. The Service also networks closely with the Corporate Fraud Investigations Team at Leicester City Council and national organisations such as the National Anti-Fraud Network (NAFN). Internally, the Service works closely with the LCC Trading Standards Service, e.g. in a recent joint exercise to raise awareness of common scams.</p> <p>The County Council approves a Risk Management Strategy each year as part of the MTFS. The strategy sets out the approach to managing and reporting risks. Each department has its own risk register using a central template and scoring system which is agreed by DMTs. The departmental risk registers are then compiled centrally and the more significant risks reported to the Corporate Governance Committee every quarter.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The Council is always vigilant to the threat of fraud and Internal Audit work is planned to highlight the threat of potential fraud. High scoring areas arising from the FRA are used to inform the annual Internal Audit Plan. For the current financial year the areas deemed high risk include procurement fraud, adult social care fraud, grant fraud and cyber crime.</p>

## Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council / Pension Fund as a whole or within specific departments since 1 April 2021?</p>	<p>Within Leicestershire County Council, strategic and operational responsibility for counter fraud rests with the Head of Internal Audit Service (HoIAS). Therefore, the HoIAS is routinely aware of any actual, suspected or alleged fraud affecting the entity. A list of investigations is held by the HoIAS and such details are kept confidential so as not to jeopardise such investigations. This list is shared with the external auditor upon request as appropriate. The Corporate Governance Committee is updated on concluded investigations via progress reports.</p> <p>The Internal Audit Service is responsible, annually, for completing both the CIPFA Fraud &amp; Corruption tracker and the Council's reporting obligations for fraud under the Local Government Transparency Code although with regard to the CIPFA Tracker this was temporarily suspended by CIPFA for 2021 due to the pandemic but is expected to return in 2022. These processes both summarise the fraud activity that the Council has been exposed to in the previous year.</p>
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The Corporate Governance Committee meets on a quarterly basis. Regular counter fraud updates are provided to the Committee by the HoIAS, acting as representative of the s.151 officer. As an example, the CGC will receive the biennial fraud risk assessment (FRA), setting out what the Council considers its major fraud risks to be.</p> <p>Updates to the Council's suite of counter fraud policies and procedures are approved by the s.151 officer acting under delegated powers from the Corporate Governance Committee (most recent update November 2020). This includes the biennial refresh of the Council's overarching Anti-Fraud &amp; Corruption Strategy and the two year action plan that sits within it. The plan sets out a range of intended actions over a two year period designed to improve the Council's resilience to fraud yet further.</p>

# Fraud risk assessment

Question	Management response
<p>5. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Council / Pension Fund where fraud is more likely to occur?</p>	<p>National fraud intelligence continues to highlight procurement fraud, cyber fraud, grant fraud and adult social care fraud as main areas of fraud risk. It should be noted that, as an upper tier council, the Council isn't generally involved in the distribution of Covid-19 economic support grants.</p> <p>The pandemic, and its consequences, e.g. home working, staff absences, brought new risks, e.g. grant fraud, employee fraud, and audit work continues to be targeted into these areas. The Council is aware that, post-Covid-19 some processes may continue to be done differently, e.g. as a result of new ways of working, and managers are asked to inform Internal Audit of any significant changes to established procedures in order that it can assess risks and controls at the outset.</p> <p>The Council have no specific concerns over particular areas or functions.</p> <p>The Council faces both internal and external fraud risks. In terms of external fraud risks, Officers in the Legal Department and Insurance department are particularly alive to the potential for fraud in respect of public liability claims (<i>e.g. claims for personal injury or property damage brought by members of the public</i>). For example, with highways claims there are risks fraud by false representation (contrary to Section 2 of the Fraud Act 2006). This may arise where an individual wrongly blames a highway defect for causing damage in order to provide a foundation for a civil cause of action against the Council.</p> <p>The Council have no specific concerns over particular areas or functions.</p>
<p>6. What processes do the Council / Pension Fund have in place to identify and respond to risks of fraud?</p>	<p>See response to Q3. Also the Council publishes its Anti-Fraud and Corruption Strategy on line (see <a href="https://www.leicestershire.gov.uk/sites/default/files/field/pdf/2018/10/8/anti-fraud-and-corruption-policy.pdf">https://www.leicestershire.gov.uk/sites/default/files/field/pdf/2018/10/8/anti-fraud-and-corruption-policy.pdf</a> ). In essence, the policy requires a 'zero tolerance' policy toward suspected fraud. The strategy identifies a range of procedures and responsibilities to combat fraud. In the event of suspected fraud the Council will assess whether the police should be involved or whether it is considered preferable to pursue its own civil proceedings to recover funds.</p>

# Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for the Council / Pension, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>a) Overall internal controls work effectively and Internal Audit report on ineffective controls which are corrected by management.</p> <p>b) n/a</p> <p>c) Amongst others, segregation, and authorisation controls exist in key processes to reduce the risk of fraud. Reconciliations, budget monitoring and exception reporting, including review by Internal Audit, help to deter and identify cases of fraud.</p> <p>d) Not significantly. Financial and operational targets are an important part of the management process. However, there are a number of officers in the process that would counter any significant risk. This includes strategic budget managers (who review individual cost centre budget forecasts), and the finance function. The finance function comprises review by the Financial Analysis Information Team (FAIT), the Finance Business Partner team and the Technical Accounting Team. Reports are collated, reconciled centrally to all codes for completeness and reviewed by the Head of Finance and the Assistant Director, Strategic Finance and Property. Reports are then taken regularly to CMT and Elected Member committees,</p>
<p>8. Are there any areas where there is potential for misreporting?</p>	<p>See response to Q1</p>

# Fraud risk assessment

Question	Management response
<p>9. How do the Council / Pension Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>In addition to the Council's suite of counter fraud policies and procedures, there are a number of indirectly-linked policies such as an Employee Code of Conduct and policies for the declarations of interests and gifts and hospitality. The Monitoring Officer reviews entries with the HoIAS each year which may result in further questions/clarifications.</p> <p>The Council runs a fraud awareness campaign each November to coincide with International Fraud Awareness Week (IFAW). The 2021 campaign saw targeted communications to staff designed to raise awareness of fraud risks affecting organisations such as ours. This gave the opportunity to discuss Council policy in a number of areas, e.g. gifts &amp; hospitality, declaring personal interests (both aligned to bribery risk), and indeed to direct staff to both the Council's policies and procedures, and the mandatory fraud awareness e-learning module. The fraud awareness campaign was fully supported by the Corporate Management Team. During IFAW 2021 the Internal Audit Service provided specific training to the Council's New Starters' Network. Additionally, there was targeted awareness raising on scams to the general public via the Council's Social Media channels.</p> <p>The Council has a wealth of information on fraud on both its externally-facing website and on the internal staff intranet. Additionally, the Council has a mandatory e-learning module on fraud awareness.</p> <p>The Council regularly promotes its whistleblowing process to staff. No significant issues have been reported. In addition, the internal staff intranet (fraud pages) includes information on how a suspected fraud can be reported.</p> <p>A Supplier Code of Conduct is published on the Council's website which sets out the main principles which the Council expects Suppliers to adhere to.</p>

# Fraud risk assessment

Question	Management response
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>The Council has many, wide-ranging, functions and there are a number of areas where staff could be deemed to be in 'higher risk' posts. This might include, but would not be restricted to, staff involved in procurements (risk of bribery and collusion), staff involved in processing payments (creditors, payroll and other), planning officers, staff with custody of assets, e.g. stock; and staff working with vulnerable service users.</p> <p>During 2021 the Internal Audit Service developed, in conjunction with an external fraud expert, a training package and video specifically designed for staff involved in procurement activity. This is in the process of being rolled out internally and raises awareness of procurement risk at all stages of the procurement cycle.</p> <p>The Internal Audit Service intends developing guidance in the near future on the risk of insider fraud and how this can be mitigated through strong internal controls, e.g. segregation of duties, and also the importance of maintaining effective processes for recruitment and vetting of staff.</p> <p>Managers are responsible for operating effective internal controls in their individual service areas, a prime example being a division of duties in key financial processes. The effectiveness of these controls may be subject to independent review by Internal Audit as part of the risk-based annual Internal Audit Plan.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Not aware of any related party relationships or transactions that could give rise to instances of fraud. Monitoring and controls in place mitigate the risk.</p> <p>The Council operates contract procedure rules that require more than one person to be involved in all contract discussions.</p>



## Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Corporate Governance Committee?</p> <p>How does the Corporate Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>See response to Q4.</p> <p>Concluded fraud investigations are reported through to the Corporate Governance Committee (it may hamper an investigation, e.g. the taking of criminal action, to report fraud investigations that are 'in progress'). With regard to breaches of internal control all 'high importance' audit recommendations are reported through to the Corporate Governance Committee along with the latest position regarding their implementation. These recommendations continue to be reported until such time we are satisfied that the recommendations have been adequately implemented.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Historically, the Council has received a low number of whistleblowing referrals. These are co-ordinated through the Director of Law &amp; Governance. Where a referral has a financial slant to it the DoL&amp;G liaises with the Head of Internal Audit Service in line with the Council's Fraud Response Plan.</p> <p>The Council actively publicises its whistleblowing channels, e.g. through e-learning, during International Fraud Awareness Week and intranet articles.</p> <p>The Council did receive an indirect whistleblowing referral via the NHS Fraud Line regarding a commissioned public health activity of the Council. This has been fully investigated, funds appropriately recovered in full, and the case reported through to the Police as a suspected crime under the Council's zero tolerance approach to fraud and corruption.</p>
<p>14. Have any reports been made under the Bribery Act?</p>	<p>N/A</p>

# Law and regulations

## Issue

### Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Corporate Governance Committee, is responsible for ensuring that the Council and Pension Fund's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Corporate Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council / Pension Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council / Pension Fund's regulatory environment that may have a significant impact on the Council / Pension Fund's financial statements?</p>	<p>Internal Audit Service operates to the standards set out in the "Public Sector Internal Audit Standards" and the Internal Audit Plan specifically considers compliance with laws and regulations.</p> <p>The Council regularly promotes its whistleblowing process to staff.</p> <p>The operation of the statutory officer roles (Head of Paid Services, Monitoring Officer and Chief Financial Officer) help to ensure compliance with laws and regulations. For example, the Monitoring Officer has the authority to report to Council if they consider that any proposal, decision or omission would give rise to unlawfulness or maladministration, thereby stopping the proposal or decision being implemented until the report has been considered.</p> <p>Finance and Legal implications are outlined in all committee reports. County Council policies, finance procedural rules and contract procedure rules. Specialist teams, legal, finance, risk management, procurement, internal audit etc.</p>
<p>2. How is the Corporate Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Standard reporting formats require that legal implications are outlined in all committee reports. The Monitoring Officer and the Chief Financial Officer or deputy attends Corporate Governance committee meetings to advise members of any known issues and to respond to members enquiries.</p> <p>The Head of Internal Audit Service has a number of alternative reporting lines in the event of breach of law or regulation, including a right to meet privately with the Chair of the Corporate Governance Committee or the Committee in full, should the situation determine such an approach necessary.</p>

## Impact of laws and regulations

Question	Management response
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements?	There are no instances of non-compliance that would have a material effect on the 2021/22 financial statements
4. Is there any actual or potential litigation or claims that would affect the financial statements?	Areas of litigation are reported in the Statements where their impact is considered material or significant to the readers of the statements and the outturn itself. There are no material uninsured litigations (greater than £1m.)
5. What arrangements does the Council / Pension Fund have in place to identify, evaluate and account for litigation or claims?	The Council and Pension Fund has an insurance team and a Legal team that manages litigation and claims on behalf of the Council and the Pension Fund. All claims are passed to these teams. During the year the finance team will liaise with the insurance and legal teams to evaluate any material claims and make the appropriate accounting entries in the accounts.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None

# Related Parties

## Issue

### Matters in relation to Related Parties

The Council and Pension Fund are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council / Pension Fund;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council / Pension Fund;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the authority's perspective but material from a related party viewpoint then the authority's must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Council / Pension Fund's 2021/22 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>• the nature of the relationship between these related parties and Council / Pension Fund</li> <li>• whether Council / Pension Fund has entered into or plans to enter into any transactions with these related parties</li> <li>• the type and purpose of these transactions</li> </ul>	<p>Information is currently being collated as part of the year end work and will be included in the Statement of Accounts.</p>
<p>2. What controls does Council / Pension Fund have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> <li>• Maintenance of a Register of interests for Members and officers, requiring disclosure of related party transactions.</li> <li>• Annual return from senior managers/officers and members requiring confirmation that read and understood the declaration requirements and stating details of any known related party interests.</li> <li>• Review of in-year income and expenditure transactions with known identified related parties from prior year or known history.</li> <li>• Review of related information with subsidiaries, companies and joint ventures, e.g. accounts.</li> <li>• Review of the accounts payable and receivable systems and identification of amounts paid in relation to related parties identified.</li> <li>• Review of year end debtor and creditor positions in relation to the related parties identified.</li> <li>• Review of minutes of decision making meetings to identify any member declarations and therefore related parties.</li> </ul>

## Related Parties

Question	Management response
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Through the Contract procedure rules, the Employee Code of Conduct, and Register of Interests
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	As Q3.

# Going Concern

## Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, 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 body'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.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.



## Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by the County Council and Pension Fund will no longer continue?	Through the 4 year Medium Term Financial Strategy, and the periodic in year monitoring of income and expenditure and delivery of Savings the Council continuously monitors it's financial position to ensure that it can continue to provide statutory services. The current MTFS is balanced for 2022/23 with a gap of £8m in 2023/24. The MTFS includes contingencies and balances including £8m p.a. for general risks and £20m as a growth contingency. The current MTFS for 2021/22 shows the Council underspending by £3.5m. In addition general reserves of c.£20m are held.
2. Are management aware of any factors which may mean for Leicestershire County Council and Pension Fund that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	No specific areas where statutory services may no longer be funded. But there are financial pressures in later years of the MTFS. By 2025/26 the Council forecasts a shortfall of funding of £40m. The Council continues to plan early for additional Savings to close this gap.
3. With regard to the statutory services currently provided by Leicestershire County Council and Pension Fund, does Leicestershire County Council and Pension Fund expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Leicestershire County Council and Pension Fund to cease to exist?	Yes the Council does expect to continue all statutory services for the foreseeable future. There are significant financial challenges but by planning early, initiating new savings plans, being prudent and setting aside appropriate contingencies and balances, the Council has time to manage these pressures.
4. Are management satisfied that the financial reporting framework permits Leicestershire County Council and Pension Fund prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Yes  Yes

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

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

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

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

Specifically do Corporate Governance Committee members:

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

We would ask the Corporate Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

# Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Property, Plant and Equipment valuations – usual changes in valuations for latest year end position Net Pensions Liability – as above Pension Fund Investments - above Accruals – Debtors and Creditors
2. How does the Authority / Pension Fund's risk management process identify and addresses risks relating to accounting estimates?	External – use of appropriate qualified experts, such as Property Valuers and Actuary, with review performed by internal qualified officers at the Council Internal – qualified accountants and technicians who review the estimates and evidence
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	As Q2, review of estimates by internal qualified accountants.
4. How do management review the outcomes of previous accounting estimates?	Rereview of the estimate during the following year and again at year end where this is possible. An example where this is not possible is the pension fund, unless there is a full triennial review of all pension liabilities.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No material changes

## Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	In most areas expertise and knowledge is held internally within the finance team. For other more specialist areas, such as the IAS19 (Pension Liability) estimates and property valuations, appropriately qualified external experts are used to provide estimates. The work of external specialists is managed by appropriate internal staff.
7. How does the Council / Pension Fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	See response to Q2.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	See response to Q2.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	Through regular budget monitoring reports and year end outturn reports to the Cabinet and the Scrutiny Commission, and Statement of Accounts reported to the Corporate Governance Committee and Constitution Committee.

## Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
12. How is the Corporate Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Through regular budget monitoring reports and year end outturn reports to the Cabinet and the Scrutiny Commission, and Statement of Accounts reported to the Corporate Governance Committee and Constitution Committee. Appropriately qualified and experienced finance team, including the Director of Finance who signs the accounts as the section 151 officer.

## Appendix A Accounting Estimates - Council

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
<b>Land and buildings valuations</b>	<p>Valuations for land and buildings are undertaken by Bruton Knowles in line with RICS guidance on the basis of 5 year valuation with interim reviews. The external valuer is overseen and managed by internal RICS qualified Valuers.</p> <p>Other assets are valued on the basis of depreciated historic cost as proxy for fair value as relatively short asset lives before replacement.</p>	<p>Form of undertaking is in place between Finance Team and the Valuer that sets of the requirements.</p> <p>The Valuer will undertake the valuations in line with the form of undertaking. The finance team will review the output and check for completeness.</p> <p>The overriding requirement is that the carrying value is not materially different from the amount that would be determined by valuation. The Valuer working with the Finance Team will also consider factors (informed by Property Service Manager) that would indicate where an interim valuation is required.</p>	Bruton Knowles	<p>Degree of uncertainty inherent with any revaluation. The Council employ professional valuers and rely on expert opinion. Valuations are made in-line with RCIS guidance – reliance on expert. Assumptions are set out in valuer's report.</p>	No

## Appendix A Accounting Estimates – Council (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
<b>Investment property valuations</b>	As above	As above	As above	As above	As above
<b>Estimated remaining useful lives of PPE</b>	<p>The following asset categories have general asset lives:</p> <ul style="list-style-type: none"> <li>- Buildings varies from asset to asset, usually 50 to 70 years</li> <li>- Equipment/ vehicles average 5 years</li> <li>- Plant average 5 years</li> <li>- Infrastructure 40 years</li> </ul>	<p>Specific asset lives applied to buildings. Consistent asset lives applied to each asset category.</p>	<p>Discussion with internal asset team and where applicable Bruton Knowles as the valuer.</p>	<p>The method makes some generalisations. For example, building lives would vary depending on the construction materials used. This life would be recorded in accordance with RICS valuation. Detailed information is included in the valuers report for each asset. The lives used for other assets are based on operational experience of the service areas. The assets live is then recorded in the asset register.</p>	No



## Appendix A Accounting Estimates – Council (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
<b>Depreciation and Amortisation</b>	<p>Depreciation is provided on all PPE by the systematic allocation of their depreciable amounts over their useful lives. Buildings are depreciated over their remaining useful economic lives as assessed by the property valuer, with no allowance for a residual value. No depreciation charge is made for the land, community assets, assets under construction or assets held for sale.</p> <p>All other assets with a finite useful life are depreciated on a straight-line basis.</p>	<p>Consistent application of Depreciation method across all assets</p>	<p>No.</p>	<p>The length of the life is determined at the point of acquisition or revaluation. Major components are depreciated separately.</p>	<p>No</p>



## Appendix A Accounting Estimates – Council (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
<b>Valuation of defined benefit net pension fund liabilities</b>	The Council is the administering authority of the Leicestershire Local Government Pension Scheme. The Council engage the Actuary who provides the estimate of the pension liability.	Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year.	Consulting Actuary	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No.
<b>Level 2 investments (if any)</b>	The Council using a Treasury Management expert, Link Asset Services to estimate the fair value of investments as at the balance sheet date.	Investment details are provided to Link, who calculate the fair values and report these to the Council. Their report is reconciled back to the data provided.	Treasury Management Expert	As disclosed in the accounting policies to the Statement of Accounts – appropriate valuation techniques are used to determine the fair value of investments, with the inputs categorised as one of 3 levels – level 2 being observable prices quoted in an active market.	No

## Appendix A Accounting Estimates – Council (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
<b>Level 3 investments</b>	None	N/a	N/a	N/a	No
<b>Fair value estimates</b>	See Level 2 above, plus surplus assets valued at Level 2	See above	See above	See above	No

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## Appendix A Accounting Estimates – Council (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
<b>Provisions</b>	Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Charged in the year that the Council becomes aware of the obligation.	No.	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.	No.

## Appendix A Accounting Estimates – Council (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
<b>Accruals</b>	Finance team provide detailed guidance and training to budget managers and other finance colleagues on the establishment of accruals of expenditure and income. All accruals are reviewed before posting to the accounts. Activity is accounted for in the financial year that it takes place, not simply when cash payments are made or received.	Detailed guidance and manager training. Review financial systems to identify where goods have been received but not paid for. Requests of service managers to identify any other goods or services received or provided but not paid for, with additional challenge concentrating	No.	Accruals for income and expenditure often based on known values. Where accruals are estimated the latest available information is used. The annual leave accrual is based on historic records. An annual review will be performed to assess whether there are any circumstances that mean the historic calculation of annual leave is no longer a reasonable estimate and whether the survey process needs to be performed on a partial or complete basis. Events likely to trigger such a decision would be significant changes in staff numbers or working patterns.	No.



## Appendix A Accounting Estimates – Council (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
<b>Accruals (continued)</b>	While processes and procedures will be maintained to capture all accruals, resources will be focused on identifying individual transactions of £10,000 and above.	on transactions greater than £10,000.			

## Appendix A Accounting Estimates – Council (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
<b>Credit loss and impairment allowances</b>	A provision is estimated using knowledge of any risk of non recovery for individual debts and a proportion basis used based on experience of expected credit loss for an aged debt listing.	Central Finance team provide detailed guidance to departmental finance business team on approach and reviews working papers.	No.	Past experience.	No.

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## Appendix A Accounting Estimates - Council (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
<b>Finance lease liabilities</b>	At the inception of the lease the liability is the lower of the fair value of the asset or present value of the minimum lease payments. Payments are split between the finance charge and the element that reduces the liability	Finance team review contracts and payments over the de-minimus level to ensure the lease is categorised correctly as a finance lease or an operating lease. Calculations supported by lease documents.	Not required	Assets recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is the shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period)	No.

## Appendix A Accounting Estimates – Pension Fund

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
<p><b>Level 3 Investments</b></p>	<p>Includes unquoted equity investments, hedge funds and infrastructure, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.</p> <p>The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Leicestershire County Council Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP.</p>	<p>The values of the investment in hedge funds and infrastructure are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.</p>	<p>Yes, fund Manager</p>	<p>See answers on the left</p>	<p>No</p>



## Appendix A Accounting Estimates – Pension Fund

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
<b>Investment Property Valuations</b>	See Land and Buildings valuations above				No
<b>Valuation of Pension Liability</b>	See valuation of pension fund liability above.				No

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