

Leicestershire County Council and Pension Fund Audit Progress Report and Sector Update

Year ending 31 March 2022

November 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 Authority 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

Your key Grant Thornton team members are:

Mark Stocks

Key Audit Partner

T 0121 232 5437

E mark.c.stocks@uk.gt.com

Andy Reid

Senior Manager

T 07901 706575

E andy.s.reid@uk.gt.com

Janette Scotchbrook

Assistant Manager

T 0121 232 5409

E janette.k.scotchrbook@uk.gt.com

This paper provides the Corporate Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Corporate Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at November 2022

Financial Statements Audit

We undertook our initial planning for the 2021/22 audit in March 2022 and began our work on your draft financial statements in August 2022. The results of our work to date are included in this report.

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts. This is enacted by The Accounts and Audit (Amendment) Regulations 2022 (SI 2022 No. 708) that came into force on 22 July 2022. The deadline for publishing audited local authority accounts for 2021/22 is extended to 30 November 2022 and thereafter changed to 30 September for years up to 2027/28.

As previously reported to the Committee, we intended to report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 30 November 2022 in line with the above deadline.

Members may be aware that followings findings that come to light late on in the 2020/21 reporting cycle, CIPFA established a Task and Finish Group to address an issue regarding the derecognition of parts of infrastructure assets following 'replacement' expenditure. For highways Authorities in particular, this presents a risk of material misstatement and has led to the delay in sign-off of residual 2020/21 opinions and has been a key consideration in audit work performed by firms in 2021/22.

The Department for Levelling Up, Housing and Communities are continuing to work on a Statutory Instrument (SI), with a plan to this being laid in Parliament on 30 November 2022 and coming into force on 25 December 2022. They continue to liaise with audit firms, and It therefore is hoped that this SI, together with updates to the CIPFA Code, will resolve the majority of the ongoing audit challenges related to Infrastructure Assets balances, thus avoiding any potential qualification of accounts.

Inevitably, based on the timing of the statutory instrument by Central Government, we are now in a position whereby we will be unable to give our opinion on the Statement of Accounts by 30 November 2022. This is consistent for all Authorities, regardless of location or audit firm, unless they hold immaterial infrastructure assets (some Districts, Fire, Police etc).

Notwithstanding this issue, we still anticipate that the audit of the financial statements for both the County Council and Pension Fund will be substantially complete by the end of November as planned, pending final resolution of the matter.

We are working to agree a timetable which will allow us to finalise the audit for the County Council and Pension Fund and report to Corporate Governance Committee in the new year. However, we await more information on the issuance of the Statutory Instrument and what impact this will have on the level of audit work required on infrastructure and this is expected by the end of November.

Members of the Committee should be assured that this is outside the control of both Officers of the Authority and ourselves as Statutory Auditors, and that the County Council and Pension Fund will still be able to meet its statutory duty to publish its accounts by 30 November by publishing draft accounts and including a note stating that the audit has been delayed.

Progress at November 2022

Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors 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. The extended deadline for the issue of the Auditor’s Annual Report is now no more than three months after the date of the opinion on the financial statements.

We anticipate being able to issue our draft 2021/22 Value for Money findings by the end of November 2022.

Results of Audit Work to date

The findings of our audit work to date, and the impact on our reporting, are summarised in the table below:

	Work performed	Summary of key findings
Management override of controls Council and Pension Fund	<p>We have continued to apply our new approach to our testing of journal entries in 2021/22, utilising the inflo software. This provides the engagement team with effective assurance around the completeness of the population subject to testing and introduces more sophisticated risk assessment of journals for indications of management override of controls.</p> <p>We identified relevant journal entries for testing for both the County Council and the Pension Fund and requested evidence to support these entries. We have been provided with this evidence which we are in the process of reviewing.</p>	<p>To date have not identified any significant issues from our audit work performed to date on management override of controls.</p> <p>We will report the outcome of our audit procedures in the audit findings report.</p>
Valuation of land, buildings Council	<p>We have received the valuation report prepared by management's expert and working papers to support the 2021/22 revaluation exercise.</p> <p>Consistent with the prior period, we have engaged Wilks Head & Eve as our auditor's valuation expert to support the engagement team in review of the pertinent assumptions and to provide robust challenge of management. Our expert have completed their review of the work undertaken by management's expert.</p> <p>Our work to undertake a detailed review of the valuation process undertaken by the Council.</p>	<p>We will report the outcome of our audit procedures in the audit findings report.</p>

	Work performed	Summary of key findings
Valuation of the net defined benefit pension liability Council	<p>We have substantially completed our review of the significant estimate of the net defined benefit pension liability, with the support of our auditor's expert PwC. In line with recommendations made in PwC's report, there are a number of areas that require further inquiry and we have addressed these.</p> <p>No material issues have arisen from our work on the Council's pension liability..</p>	<p>We have not identified any significant issues from our audit work performed to date in this area.</p>
Valuation of Level 3 investments Pension Fund	<p>We have undertaken detailed testing on the valuation of investments, which has included:</p> <ul style="list-style-type: none"> evaluating management's processes for valuing Level 3 investments Reviewing the nature and basis of estimated values and considering 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 requesting year-end confirmations from investment managers and custodians for a sample of investments, testing 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. Reconciling those values to the values at 31 March 2022 with reference to known movements in the intervening period in the absence of available audited accounts, 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 reviewing investment manager service auditor report on design effectiveness of internal controls 	<p>Our work to date has not identified any material issues in the valuation of level 3 investments.</p>

	Work performed	Summary of key findings
Other areas Council and Pension Fund	Our work on non-significant risk areas of the audit, including material balances and transactions and other scoped areas is substantially complete for the pension fund and well progressed for the Council.	We have not identified any significant issues from our audit work performed to date in other areas.
IT audit Council and Pension Fund	Our dedicated IT audit team have performed a follow up of the detailed IT general controls review undertaken in 2020/21.	The findings of the IT audit team notes that the majority of recommendations made in 2020/21 have been addressed by management. We have issued a detailed report to management setting out our findings.

Audit Deliverables

2021/22 Deliverables	Planned Date	Status
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2021/22 financial statements and to report on the Authority's value for money arrangements in the Auditor's Annual Report</p>	September 2022	Completed
<p>Audit Findings Report</p> <p>This report communicates the findings from our work undertaken in order to give an opinion on the Authority's 2021/22 financial statements.</p>	TBC – anticipated January 2023	Not yet due
<p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p>	TBC – anticipated January 2023	Not yet due
<p>Auditor's Annual Report</p> <p>This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.</p>	TBC – anticipated January 2023	Not yet due

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Audit Market Developments

Financial Reporting Council Report On The Quality Of Local Audit

In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a ‘major’ local audit and the FRC’s report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either ‘good’ or ‘generally acceptable’, but one file ‘required improvement’.

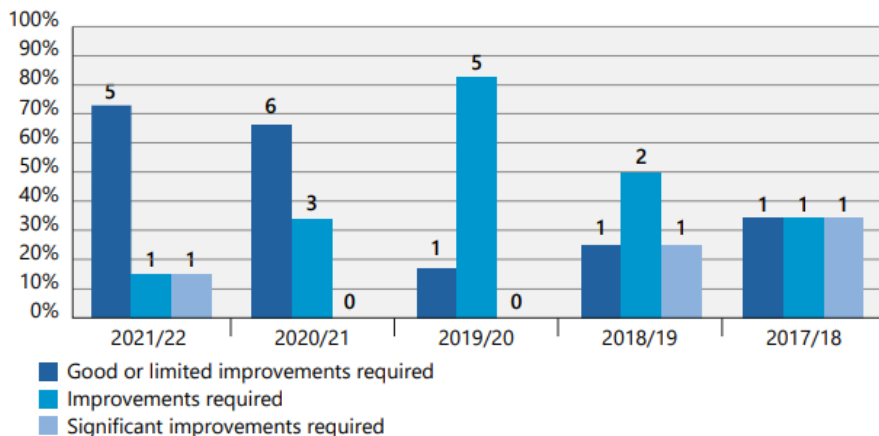
The ICAEW identified one of our files requiring ‘Improvement’ – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years’ review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams’ work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found [here](#).

Our assessment of the quality of financial statement audits reviewed



Audit Market Developments (continued)

Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and Value for Money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found [here](#)



The Value of Internal Audit – CIPFA

One of the key elements of good governance is an independent and objective internal audit service. Some organisations engage fully and reap significant benefits from the assurance, insight and expertise they bring whilst others pay lip-service to them and see their work as an administrative burden.

CIPFA's recent report, [Internal Audit: Untapped Potential](#), lifts the lid on internal audit in public services. For some chief financial officers and chief executives, this report confirms the value and contribution of internal audit teams with 87% of respondents recognising the contribution internal audit makes to their organisation. However, some leadership teams saw internal audit as providing a basic service at minimal cost.

Getting the most out of the function requires honest conversations and long-term planning. Maintaining appropriate skills and knowledge within the function is necessary to ensure high quality internal audit in public services are retained.

Culture and governance

The Audit Committee should monitor the delivery of internal audit and their output will be a key part of the annual work-plan. However, internal audit is not a substitute for risk management and should enhance the overall assurances received by management. Executives and Officers should engage with internal audit recommendations to ensure the organisation gains maximum value from reviews.

Capacity

Reducing internal audit days can lead to a lack of 'corporate grip' and not identifying issues at an early stage. This report raises concerns over the capacity of internal audit across the public sector. The profession needs to be valued and invested in to make it more attractive to new blood and for bodies to be able to attract the best candidates to their service.

Expectations

To maximise the impact of internal audit, a clear and aligned strategic audit plan and annual audit plan should be in place. This should be agreed with all stakeholders.

Future plans

Internal audit needs to adapt to the changing landscape, including risks such as climate change, digital and technological developments, cyber-security and ongoing financial and service pressures within their planning processes. For financial resilience and medium- and long-term financial strategies internal audit can provide vital independent assurance to decision makers to allow them to take on more risk and be more ambitious. Leadership teams need to be clear on what assurances they will require going forward.

For more information, [Rob Whiteman](#) share his views on this report.



Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit Committees in assessing their effectiveness.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm’s-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

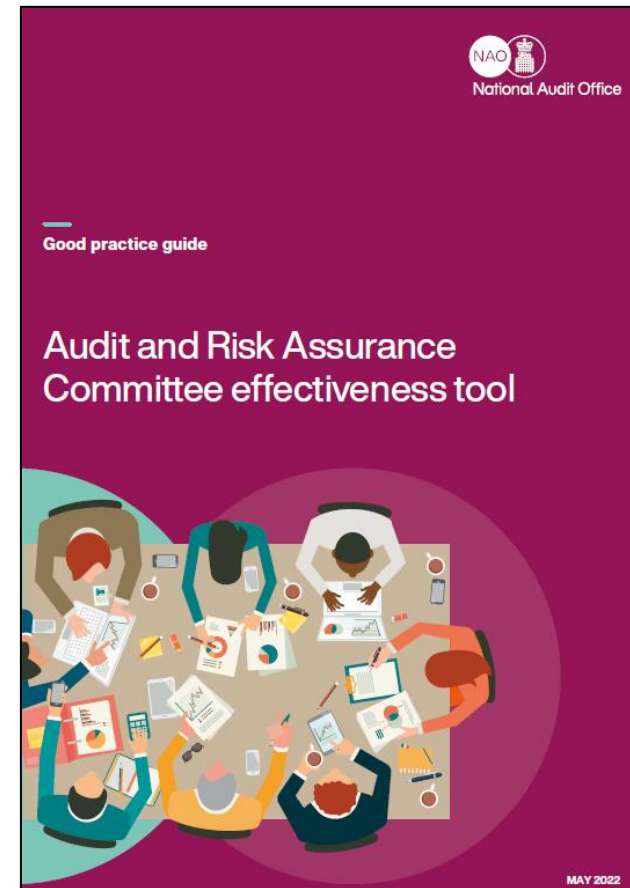
Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO’s effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis.”

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit Committees it is also relevant to local government.



The guide can be found here:

[Audit and Risk Assurance Committee effectiveness tool - National Audit Office \(NAO\) Report](#)

Guide for audit and risk committees on financial reporting and management during COVID-19 – NAO

The National Audit Office (NAO) has published this guide which aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak

The NAO comment “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The guide includes sections on:

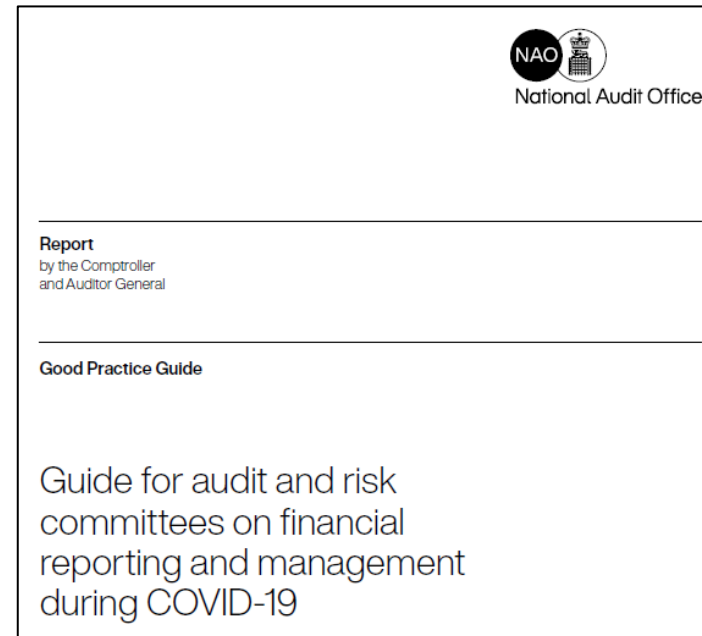
- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure

The guide can be found here:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

The guide includes a number of key questions covering areas such as:

- Property valuations
- Pension scheme valuations
- Completeness of liabilities
- Events after the reporting period
- Control environment
- Fraud and error





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