The Audit Findings for Leicestershire County Council

Year ended 31 March 2022

Leicestershire County Council
March 2023

Contents

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

M C Stocks

Name : Mark Stocks

For Grant Thornton UK LLP

Date :

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Leicestershire County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

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

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

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

Our audit work was completed remotely during July 2022 to January 2023. Our findings are summarised on pages 6 to 28.

We identified a number of significant issues in our 2021/22 audit which have led to the need for adjustments to the draft financial statements. These include two material misstatements and one non material misstatements in the financial statements. The impact of these is:

- Write-off of academy land valuation - £211m reduction in asset values at 31 March 2022, and the need for a Prior Period Adjustment.
- Incorrect netting off of debtor and creditor balances - £43m increase in debtor and creditors
- Incorrect valuation of school buildings - £5.3m increase in asset values at 31 March 2022.

Further issues identified for which adjustments have not been made to the financial statements are:

- Understatement of pension assets at 31 March 2022 (due to timing differences in valuation)– resulting in the overstatement of the pension liability by £2.3m
- Potential understatement of the debtors credit loss allowance, resulting in a projected estimated overstatement of debtors by £2.0m
- Derecognition of academy schools derecognised in the incorrect financial year - £8.4m overstatement of asset values at 31 March 2021. These schools were derecognised in 2021/22 but should have been in the prior year, resulting in an understatement to the loss on disposal recorded in 2020/21 and an overstatement of loss on disposal in 2021/21.
- Movement on valuations on assets not revalued in 2021/22 – resulting in an estimated understatement of asset values of £2.8m.
- Potential overstatements of debtors balances at 31 March 2022 due to subsequent issue of credit notes – extrapolated figure of £1.0m.

We note that the adjustment to credit loss allowances and the extrapolated error re income would reduce the useable reserves available to the Council.

Audit adjustments are detailed in Appendix C.

In addition to the above issues, we have identified a number of control and process points which are set out on pages 16 to 21.

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

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1. Headlines (continued)

Financial Statements (continued)

Our work is substantially complete subject to the following outstanding matters;

- Completion of property, plant and equipment valuations audit
- Completion of final disclosure check
- Clearance of Engagement Lead review points
- Receipt of management representation letter; and
- Review of the final set of financial statements
- Final Manager and Engagement Lead review of the audit file and completion of remaining audit documentation.

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

Subject to clearance of the above outstanding points, our anticipated audit report opinion will be unmodified.

Value for Money (VFM) arrangements

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

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

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

We have completed our VFM work, which is summarised on pages 29-30 and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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1. Headlines (continued)

Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.
Significant Matters	We did not encounter any significant difficulties or identify any other significant matters arising during our audit.

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2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

We have not had to alter our audit plan, as communicated to you in May 2022, to reflect any changes to our risk assessment.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Corporate Governance Committee meeting on 16 March 2023. These outstanding items include:

- Completion of property, plant and equipment valuations audit
- Completion of final disclosure check
- Clearance of Engagement Lead review points
- receipt of management representation letter; and
- review of the final set of financial statements
- final Manager and Engagement Lead review of the audit file and completion of remaining audit documentation.
- file and completion of remaining audit documentation.

Acknowledgements

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

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2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan in April 2022. We detail in the table our determination of materiality for Leicestershire County Council.

	Council Amount (£000)	Qualitative factors considered
Materiality for the financial statements	14,000	-
Performance materiality	9,800	-
Trivial matters	700	-
Materiality for senior officers remuneration and related party transactions	n/a	Impact of any errors was considered on a case by case basis.

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2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

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

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities. The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over both automated and manually posted journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • used the work of our IT auditors to identify further transactions posted by users where there could be a risk of inappropriate postings • gained an understanding of the accounting estimates and critical judgement applied and made by management and consider their reasonableness with regard to both corroborative and any contradictory evidence that may exist • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Based on our testing to date we did not identify any issues with journal postings which we consider we need to bring to the attention of the Corporate Governance Committee. We are currently working through remaining queries on journals selected. We note that journals below £20,000 are not authorised. While the value is below materiality (c.£5m) we consider that this is a control weakness and that all journals should be reviewed and authorised. We have raised a recommendation to this effect. We have not identified any evidence of management override of control with regard to estimates, unusual transactions, or misstatement. We have raised a number of observations relating to the journals process as set out on page 17.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of Leicestershire County Council, we have determined that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because: • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited; and • The culture and ethical frameworks of public sector bodies, including Leicestershire County Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for the Council.	There were no changes to our risk assessment as reported in the audit plan. Notwithstanding that we have rebutted this risk, we still identified an elevated risk assessment for the Council's revenue streams, as they are material. We undertook detailed audit work in response to this elevated risk which included: <u>Accounting policies and systems</u> • evaluated the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code • updated our understanding of the Council's business processes associated with accounting for income <u>Fees, charges and other service income</u> • Agreed on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. <u>Taxation and non-specific grant income</u> • Income for national non-domestic rates and council tax is predicable and therefore we conducted substantive analytical procedures • For other grants we sample tested items back to supporting information and subsequent receipt, considering accounting treatment where appropriate. We also undertook tests to address the risk that income has been understated, by not being recognised in the current financial year. We identified the following issues: The Council has applied the same approach to the calculation of the credit loss allowance applied to debtor balances for a number of years and has not reviewed the basis of this calculation to ensure that it is based on current, reliable data on the level of credit losses expected. We requested evidence to support the validity of the percentages used such as evidence on actual levels of debt write offs/recoverability but the Council has been unable to provide this level of evidence to support the reasonableness of the percentages used. As set out on page 37 we have reviewed the reasonableness of the figures used and recorded a potential understatement of the credit loss allowance figure of £2.0m. This has been recorded as an unadjusted misstatement in appendix c. Testing of year end debtor balances identified debtors raised prior to year end which were cancelled by credit notes shortly after the year end. The value of these items in our sample was £87k, which when extrapolated over the full debtors population suggests a potential overstatement of debtors by £1.0m. This has been recorded as an unadjusted misstatement in appendix c.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Risk of fraud related to expenditure recognition - PAF Practice Note 10 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 (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition. Having considered the nature of the expenditure streams of Leicestershire County Council, and on the same basis as that set out above for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition.	There were no changes to our risk assessment as reported in the audit plan. Notwithstanding that we have rebutted this risk, we still identified an elevated risk assessment for the Council's expenditure streams, as they are material. We undertook detailed audit work in response to this elevated risk which included: Expenditure • updating our understanding of the Council's business processes associated with accounting for expenditure • agreeing, on a sample basis, expenditure and year end creditors to invoices and cash payment or other supporting evidence We also undertook tests to address the risk that expenditure has been overstated, by not being recognised in the current financial year. No issues arose which we consider we need to bring to the attention of the Corporate Governance Committee.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of land and buildings

The Council revalues its land and buildings on a rolling, five-yearly basis.

This valuation represents 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.

Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.

Land and Buildings

Within the valuation of the Council's Other Land and Buildings, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build cost of relevant assets carried at depreciated historic cost and any judgements that have impacted this assessment and the condition of the current assets.

For assets valued at existing use value and fair value, the key inputs into the valuation are the yields used in the valuation, including estimated future income from the asset.

We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings is a significant risk, which is one of the most significant assessed risks of material misstatement.

Commentary

The Council used both an internal valuer and external valuers (Bruton Knowles) for its asset valuations during 2021/22. The effective date of the valuation undertaken was 31 October 2021.

We undertook the following audit procedures;

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation experts used
- wrote to the Council's valuer to confirm the basis on which the valuations were carried out
- engaged our own valuation specialists to review the terms of engagement and valuation approach for the Council's internal valuation team
- challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding
- tested the full valuation at 1 October 2021 to understand the information and assumptions used in arriving at valuations, include review of detailed valuation calculations for a sample of assets
- reviewed management's assessment of the potential impact of movements in valuations between 1 October 2021 and 31 March 2022
- ensured that key data used as the basis for valuations (such as BCIS build cost information) was supported by external evidence
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register and that any revaluation movement had been correctly accounted for in the financial statements
- used valuation indices to review valuation movements for assets not revalued in 2021/22 to assess whether there was the potential for a material difference to have arisen between the carrying value of assets and current value.

Details of our findings are set out on the following pages.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of land and buildings (continued)

The Council revalues its land and buildings on a rolling, five-yearly basis.

This valuation represents 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.

Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.

Land and Buildings

Within the valuation of the Council's Other Land and Buildings, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build cost of relevant assets carried at depreciated historic cost and any judgements that have impacted this assessment and the condition of the current assets.

For assets valued at existing use value and fair value, the key inputs into the valuation are the yields used in the valuation, including estimated future income from the asset.

We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings is a significant risk, which is one of the most significant assessed risks of material misstatement.

Commentary

We identified the following issues:

Valuation of land leased to academy schools

- The Council holds land which is leased to academy schools under 125 year leases, as is standard practice when schools convert from local authority control to academy status.
- Historically the Council has continued to value this land at current market value. Following review and discussion during the 2021/22 audit process with Council officers, the Council's internal valuer and both the Council's and Grant Thornton's external expert valuers, we have agreed that the valuation of land leased to academies at full market value is not appropriate. The terms of the long term lease agreements in place are such that the Council does not retain rights to use the assets and this should be reflected in the valuation applied.
- We have agreed that the appropriate approach to be followed to the valuation of this land is to treat each land asset as having a "demiminis" value of £1. As a result an adjustment has been made to the valuation of land as at 31 March 2022, and corresponding prior period adjustments made to restate comparative figures on the same basis.
- The value of the adjustments made to land values in the financial statements are:

	31/3/20 £m	31/3/21 £m	31/3/22 £m
Write off of academy school land value	196.9	190.8	211.0

Timing of derecognition of academy schools

- When schools convert to academy status the Council derecognises the building previously held in its financial statements.
- Testing of school conversions during 2021/22 identified instances of delay between the conversion of the school to academy status and the point at which this derecognition is recognised in the Council's financial statements which has led to conversions being recognised in the financial year after the conversion took place. This has resulted in misstatements in the Council's financial statements.
- The value of the misstatements identified in 2021/22 was:

	31/3/21 £m	31/3/22 £m
Overstatement of asset valuations	8.4	0

The Council has adjusted the financial statements for the impact of the above misstatements on the balance sheet at 31 March 2022. It has not adjusted for the prior year impact, which means that the valuation of schools at 31 March 2021 and the loss on disposal of schools recorded in 2021/22 are both overstated by £8.4m. This has been recorded as an unadjusted misstatement in appendix c. We have also raised a recommendation relating to the process for derecognising academy schools on page 34.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of land and buildings (continued)

The Council revalues its land and buildings on a rolling, five-yearly basis.

This valuation represents 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.

Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.

Land and Buildings

Within the valuation of the Council's Other Land and Buildings, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build cost of relevant assets carried at depreciated historic cost and any judgements that have impacted this assessment and the condition of the current assets.

For assets valued at existing use value and fair value, the key inputs into the valuation are the yields used in the valuation, including estimated future income from the asset.

We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings is a significant risk, which is one of the most significant assessed risks of material misstatement.

Commentary

Valuation of school buildings

- Our work during 2021/22 identified that the approach taken to the valuation of school buildings applied by the Council's external valuer was incorrect as it did not follow DfE guidance on the use of "base" floor areas when valuing schools on a Modern Equivalent Asset basis.
- The impact of this misstatement on the valuations of schools is set out below.

	31/3/21 £m	31/3/22 £m
Understatement of school valuations	4.8	5.3

The Council has adjusted the financial statements for the impact of the above misstatement on the balance sheet at 31 March 2022, but has not made a prior year adjustment for the impact at 31 March 2021. This has been recorded as an unadjusted misstatement in appendix c.

Review of valuation movements for assets not valued in 2021/22

- The Council does not revalue all assets every year, but adopts a rolling 5 year valuation exercise in line with the requirements of the CIPFA Code of Practice. The Council's valuer then undertakes a review to provide assurance that the carrying value of assets not revalued in year is not materially different to fair value.
- As at 31 March 2022 the Council held £85m of assets which were not revalued in 2021/22. The Council's review of movements in value since date of last valuation indicated a potential increase in value for these assets of £2.8m. This has been recorded as an unadjusted misstatement in appendix c.
- This figure is are below our materiality of £14m and as such the Council has complied with the requirements of the CIPFA Code to demonstrate that the carrying value of assets not revalued in year is not materially different to fair value. No adjustment to the financial statements in relation to these differences in valuation is proposed as the valuation approach taken by the Council is in line with the requirements of the CIPFA Code.

Terms of engagement

- Valuers should prepare a written terms of engagement that sets out the terms of their engagement and how the instruction of the Council will be met. This is a RICS requirement. We note that the Council did not receive these terms of engagement. These should be secured in future years.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the pension fund net liability as a significant risk, which is one of the most significant assessed risks of material misstatement.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluated the design of the associated controls • evaluated the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liabilities • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuary • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtained assurances form the auditor of the Leicestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund's financial statements. We identified the following issue • The assurances provided by the auditor of Leicestershire Pension Fund included notification of an unadjusted misstatement in the pension asset values at 31/3/22 for the fund. The share of this error for Leicestershire County was a £2.3m understatement of the pension asset value. This has been recorded as an unadjusted misstatement in appendix c. We note that due to the timing of the valuations for the pension fund that there is a timing difference to the actual year end balance. This is not unusual for pension funds.

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2. Financial Statements - Other risks

Risks identified in our Audit Plan	Commentary
Valuations of Infrastructure Assets The CIPFA Code of Practice on Local Authority Accounting states that Infrastructure assets shall be measured at depreciated historical cost. Historical cost is deemed to be the carrying amount of an asset as at 1 April 2007 (i.e. brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment. We identified a risk that the carrying value of infrastructure assets is not appropriate given the nature of how the assets are held on the balance sheet and monitored through the asset register.	The inherent risks which we identified in relation to infrastructure assets were: • an elevated risk of the overstatement of Gross Book Value and accumulated depreciation figures, due to lack of derecognition of replaced components • a normal risk of understatement of accumulated depreciation and impairment as a result of failure to identify and account for impairment of infrastructure assets and an over or understatement of cumulative depreciation as a result of the use of inappropriate useful economic lives (UELs) in calculating depreciation charges. We have been working with CIPFA and the English Government to find both long-term and short-term solutions which recognise the information deficits and permit full compliance with the CIPFA Code. It has been recognised that longer-term solutions, by way of a Code update, will take several years to put into place and so short-term solutions are being put in place in the interim. These short-term solutions include the issue of a Statutory Instrument (SI) by government. The English SI was laid before Parliament on 30 November 2022 and came into force on 25 December 2022. CIPFA issued an update to the Code for infrastructure assets in November 2022 and has issued further guidance in January 2023 in relation to useful economic lives (UELs). We have completed the following work focusing on the Council's current year's infrastructure assets: - Reviewed and challenged the arrangements that the Council has in place around impairment of infrastructure assets - Evaluated management's processes and assumptions for the calculation of the estimate including review of in-year depreciation and associated UELs - Challenged the information and assumptions used to inform the estimate - Considered whether there has been any replacement of assets that have not been fully depreciated and evaluated the subsequent derecognition of the replaced assets. Based on our work, we are satisfied that the Council has: • correctly applied the SI and the requirements in the CIPFA Code update • appropriately removed the gross book value and accumulated depreciation from its disclosures adding a new disclosure setting out opening net book value and any in-year movements • not identified any prior period adjustments requiring disclosure in the accounts.

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2. Financial Statements - Other risks

Risks identified in our Audit Plan	Commentary
Completeness of non-pay operating expenditure Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. Management also undertake an assessment of the levels of grant income received in the financial year to be deferred to future years based on the specific terms and conditions of funding. We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention.	We have • evaluated the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness • gained an understanding of the Council's system for accounting for non-pay expenditure • tested a sample of balances included within trade and other payables • tested a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period. • tested a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period No issues arose which we consider we need to bring to the attention of the Corporate Governance Committee.

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2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
General ledger code structure and the postings As set out o page 7, review of journal postings is a key element of our audit testing designed to address a mandated significant risk relating to the potential for management override of controls. . The Council's ledger structure and approach to financial management gives rise to a significant volume of journal postings. In total there were 327,588 postings recorded on the general ledger for 2021/22. Review and analysis of this volume of transactions as required to enable us to carry out journal testing represents a significant area of audit input.	We continue to develop our audit approach and have undertaken a more detailed review of the Council's ledger structure and use of journals. We have agreed with officers that we will review the matters outlined below post the audit to understand whether audit and accounting processes can be made more efficient. We noted the following points from our review of journals processes and postings during 2021/22: As noted, the Council's ledger structure (which includes 3,150 balance sheet codes and 54,000 code combinations) and approach to financial management gives rise to a significant volume of journal postings. In total there were 327,588 postings identified for 2021/22, however only around 1% of these (3,861) were manual postings. The rest and vast majority were automated postings generated by the cash management, accounts payable and accounts receivables ledger modules. Journal postings below £20k do not require independent authorisation. We reviewed the total volume and value of these postings and concluded that the value of manual journals not subject to independent authorisation in 2021/22 was £5.7m, relating to 1,231 postings, which is below our materiality figure. As such we consider the risk of material misstatement arising from the use of unauthorised journal postings to be low. The Council ledger structure is also set up in such a way that for many balance sheet codes, separate debit and credit codes are maintained. This leads to sometimes significant balances building up on codes where have not always been cleared down promptly. As an example, in 2021/22 the Council posted a journal for £25.8bn to clear down accumulated debit and credit balances on the General County Fund Bank - General Cash Control accounts. Whilst there is no indication of any errors in the posting made, the need to make journal adjustments of such value and the accumulation of such significant balances on the ledger increases the risk of potential material misstatements occurring due to error. The Council undertakes regular monthly journal postings in which the council transfers all amounts from individual income and expenditure codes based on cost centre and subjective to the relevant CIES categories (i.e. public health, C&FS+Schools, E&T etc). This allows the Council to report full expenditure per category. These amounts are then transferred to the general fund within the Balance sheet, also accounting for the movement in reserves, provisions and trust funds. We consider that the extent of posting increases the risk that there may be errors in amounts and account codes as these are manually typed in by the finance team. We have raised a recommendation on this matter.	The complexity of the coding structure used by the Council and in particular the accumulation of large debit and credit balances on the balance sheet increases the risk of potential material misstatements occurring due to error, and as a consequence increases the time required to carry out the audit process to address this risk. This is increased by the significant use of journals and the use of manual mass postings of income, expenditure and reserve balances each month. We have raised a recommendation on page 34. We continue to develop our audit approach and have undertaken a more detailed review of the Council's ledger structure and use of journals this year. We have agreed with officers that we will review these matters to understand whether audit and accounting processes can be made more efficient.

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2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue

General ledger code structure and the postings (continued)

Our review of income and non pay expenditure transaction populations identified a significant volume and value of gross debits and credits included in populations due to the way the Council uses journals to reallocate costs and income between cost centres.

Commentary

The values identified in our review of populations were are set out below:

	Fees and charges £000s	Non pay expenditure £000s
Gross debits	£71,994	£777,889
Gross credits	(£256,372)	(£244,402)
Total gross value of transactions	£328,366	£1,022,291
Net value of transactions – per accounts	(£184,378)	£533,488

Auditor view

From an external audit perspective, inclusion of large numbers of gross debit and credit items in populations increases the level of audit input and testing required as audit tested has to cover the total gross value of transactions, and not just the net balance.

The Council could reduce the level of audit input required in these areas by “cleansing” populations prior to audit to ensure that only those transactions which directly impact on the financial statements are included in populations provided for audit.

We continue to develop our audit approach and have undertaken a more detailed review of the Council’s ledger structure and use of journals this year. We have agreed with officers that we will review these matters to understand whether audit and accounting processes can be made more efficient.

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2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
Debtor and creditor ledger codes The Council's ledger includes a large number of codes which make up the year end debtor and creditor figures. At 31 March 2022 the number of codes were: Debtor codes – 246 codes Creditor codes – 622 codes The approach taken by the Council is to maintain up separate debit and credit ledger codes for transactions such as payroll and VAT postings. This leads to large debit and credit balances on the ledger and requires a review by Council officers to ensure that balances are netted off where required in preparing the financial statements.	Our audit work on debtor and creditor balances at 31 March 2022 identified the following issues: **Incorrect netting off of debtor and creditor codes** We identified that a number of debtor and creditor codes had been incorrectly netted off when preparing the draft financial statements, leading to an understatement of both debtor and creditor balances by £43m. This is included in the schedule of corrected misstatements in appendix c. **Lack of review and reconciliation of code balances** Review of balances on creditor codes identified one instance (sundry creditors code Bonds-Interest Bearing Bonds-Reserved Creditors, cost centre 91303, subjective 9722) where postings had not been effectively reviewed and reconciled. The code included postings dating back to 1996 which had not been fully reviewed or reconciled. The net balance on the code at 31/3/22 was £4.6m but made up of gross balances of £21.9m debits and £26.6m credits. We were able to obtain assurance that the year end balance was not materially misstated, but this required considerable input from both the audit team and Council officers to fully understand and test balances on the code.	The complexity of the coding structure used by the Council • increases the risk of error in the preparation of the financial statements, as demonstrated by the £43m error to debtor and creditor balances at 31 March 2022 identified during the 2021/22 audit • Increases the level of reconciliations required to ensure proper control over balances, and the risk that reconciliations are not undertaken on all ledger codes – such as the sundry creditor code identified in 2021/22 which had unreconciled postings going back to 1996. From an audit perspective, the coding structure in place, the large number of ledger codes and the instance noted of review and reconciliation of balances on codes were not being undertaken also increases audit risk and as a consequence significantly increases the time required to carry out the audit process. We continue to develop our audit approach and have undertaken a more detailed review of the Council's ledger structure and use of journals this year. We have agreed with officers that we will review these matters to understand whether audit and accounting processes can be made more efficient.
Derecognition of plant and equipment on disposal We carried out testing on a sample of 5 fully depreciated plant and equipment assets held on the fixed asset register to ascertain whether the assets were still in use. Of the sample of 5 reviewed, 2 were found to have been disposed of but were still held on the fixed asset register at 31 March 2022.	Although the sample of assets undertaken was of fully depreciated assets which have nil net book value, testing indicates that gross cost and depreciation are potentially overstated as assets are not being removed from the asset register on disposal and/or write off. The total value of gross cost of fully depreciated plant and equipment assets as at 31 March 2022 held on the fixed asset register was £12.031m, which is not a material figure in total.	The Council should implement a process to ensure that assets are removed from the fixed asset register on disposal.

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2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £387.3m (amended accounts figure)	Other land and buildings comprises £387.3m of assets held at fair value. Of these assets, those with a value of £294.4m were revalued in 2021/22. Specialised asse such as schools and libraries were valued based on depreciated replacement cost (DRC) at year end. The remaining operational assets together with £2.9m of surplus assets and £1.8m of investment property were valued on an open market basis. The Council uses an external valuer to complete the valuation of properties as at 1 October 2021 on a five yearly cyclical basis. All DRC assets are revalued each year. For 2021/22 the valuation of DRC assets has been updated to 31 March 2022 using appropriate BCIS indices. Management has considered the year end value of non-valued properties and the potential valuation change in these assets based on application of relevant indices to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to valuations.	See comments on issues arising from our audit of valuations on pages 11 to 13.	Grey

Assessment

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

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2. Financial Statements - key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td>Net pension liability – £576.4m</td>
<td>The Council's net pension liability at 31 March 2022 is £576.4m (PY £835.5m) relating to Leicestershire Pension Fund.

The Council uses Hymans Robertson LLP to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial funding valuation is required every three years. The latest full actuarial funding valuation was completed as at 31 March 2019.

Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £211.1m net actuarial gain recognised in the Comprehensive Income and Expenditure account during 2021/22.</td>
<td>We have
• Undertaken an assessment of management's expert
• Assessed the reasonableness of the actuary's approach and of any changes compared to the prior year
• Used PwC as an auditors expert to assess actuary and assumptions made by actuary – as set out below
<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>2.7%</td><td>2.7% - 2.75%</td><td>●</td></tr>
<tr><td>Pension increase rate</td><td>3.2%</td><td>3.15% - 3.3%</td><td>●</td></tr>
<tr><td>Salary growth</td><td>3.7%</td><td>0.5% to 2.5% above pension increase rate</td><td>●</td></tr>
<tr><td>Life expectancy – Males currently aged 45 / 65</td><td>22.4/21.5</td><td>Confirmed consistent</td><td>●</td></tr>
<tr><td>Life expectancy – Females currently aged 45 / 65</td><td>25.7/24.0</td><td>Confirmed consistent</td><td>●</td></tr>
</table>
• Sought explanations directly from the actuary for queries arising from review of the 2020/21 valuation and underlying assumptions.
• Reviewed the completeness and accuracy of the underlying information used to determine the estimate
• Reviewed the reasonableness of the Council's share of LGPS pension assets.
• Assessed the adequacy of disclosure of estimate in the financial statements

We have received assurances from the auditor of Leicestershire Pension Fund on the accuracy of membership data, contributions, benefits and investment values as held by the Pension Fund.

As set out on page 12, the auditor for the pension fund has reported an unadjusted error relating to an understatement of pension asset values at 31 March 2022. The share of this error for Leicestershire County Council is £2.3m, this has been reported as an unadjusted misstatement in appendix c.</td>
<td>Light purple</td>
</tr>
</table>

Assessment

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

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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Debtors credit loss allowance - £6.5m (prior year - £4.7m)	The Council includes a credit loss allowance against outstanding debtor balances. The level of credit loss allowance is calculated on the following basis: A) Review of specific balances requiring provision B) Residential social care debt Less than one year old – 5% provision 1-2 years old – 25% provision Over 2 years old – 50% provision C) Non residential debt Less than 6 months old – 5% provision 1-2 years old – 50% provision Over 2 years old – 100% provision Our discussions with finance staff indicate that this policy has been applied for a number of years without amendment. We requested evidence to support the validity of the percentages used such as evidence on actual levels of debt write offs/recoverability but the Council has been unable to provide this level of evidence to support the reasonableness of the percentages used.	Based on our own review of the level of outstanding debtor balances we have concluded that there is unlikely to be a material misstatement in the total credit loss allowance figure as at 31 March 2022. Calculating the provision based on a 50% provision on balances over 6 month old and a 100% provision on balances over 1 year old would increase the provision by £2.0m. In order to fully evaluate the potential impact on the financial statements we have recorded this as an unadjusted misstatement in appendix c. Given significant changes to the wider economy in recent years, the Council should review the basis of calculation of the credit loss allowance to ensure that it is based on current, reliable data on the level of credit losses expected. Recommendation made – see page 34.	● Blue

Assessment

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

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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision (MRP) - £6.2m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. During 2020/21 the Council changed the basis of calculation of the MRP from a 4% reducing balance approach for supported borrowing to a 40 year straight line basis. The Council considered that this represented a more appropriate approach. The total amount of MRP payable was not affected by this change but it did mean a reduction in the charge in earlier years compared to the previous reducing balance approach. This change was approved by full Council at their meeting on 25 February 2021. The year end MRP charge was £6.2m, which is in line with the MRP charge in 2020/21. The CFR as at 31 March 2021 was £214m, compared to a total debt of £264.8m . As such the Council was "overborrowed" by £50m at 31 March 2022 but expects this situation to reverse as debt is repaid.	We reviewed whether: • the MRP had been calculated in line with the revised policy • the calculations to support the 40 year estimated average remaining useful lives of assets were reasonable and supported. Based on the above assessment we consider that management's estimate is reasonable.	● Light purple

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Assessment

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

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2. Financial Statements - other communication requirements

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

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

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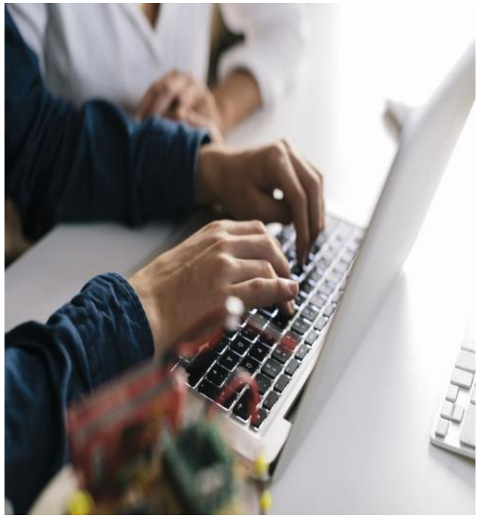
2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests for all material investment and bank balances. This permission was granted and the requests were sent. At the time of issue of this report one responses had not been received relating to balances with HSBC (£40m). We have undertaken alternative audit procedures to obtain assurance on the validity of this investment balance at 31 March 2022, including confirmation of receipt of funds on maturity of the investment in 2022/23.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided. We did not experience significant difficulties with the audit evidence, explanations or level of co-operating provided by the Council.
Other matters	We identified an IT security matter during the audit. Due to the sensitivity of the matter we will discuss this with the Corporate Governance Committee in private.

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2. Financial Statements - other communication requirements

Our responsibility

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

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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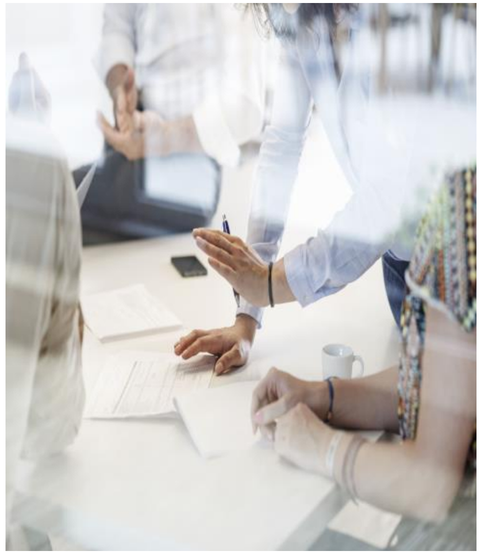
2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified/Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to appendix E
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. We have nothing to report on these matters.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. The Council does not exceed the specified group reporting threshold of £2 billion and as such detailed procedures are not required.
Certification of the closure of the audit	We intend to certify the closure of the 2021/22 audit of Leicestershire County Council in the audit report.

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3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

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

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

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3. VFM - our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate VFM Summary report which is due to be presented to the Corporate Governance Committee in March 2023 alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions.

We identified no significant weaknesses in our final report but have made a total of seven improvement recommendations.

We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Financial sustainability was identified as a potential significant weakness: • Identification of future savings: adequacy of the arrangements for identification of future savings to enable a balanced financial position to be delivered beyond 2022/23. • Impact of pay and price inflation and demand pressures: the ability of the Council to adapt financial plans and secure savings required to counter the impact of price and pay inflation and demand pressures. see 10 for more details.	We have reviewed and considered the Council's arrangements in place during the year for monitoring and reporting on its short and medium term financial position, including: • the impact of the economic climate and in particular the rising rate of inflation. • the arrangements for the identification of future savings. • plans for mitigating financial risk. • forecast outturn position and plans for delivering a balanced year end position. The SEN budget remains under significant pressure with an in year deficit of £11m for 2021/22 and a cumulative deficit of £37m which is forecast to increase significantly in later years.	From our work carried out we have concluded that, in general, there are plans in place to address the funding gap for 2022/23 and beyond. This includes the identification of savings, savings in development and contingency arrangements for delivering a balanced outturn. We have therefore not reported a significant weakness within our report, however, we have made improvement recommendations that the Council should • continue to develop and implement mitigating actions to address the significant budget deficit forecast for 2022/23. • take appropriate actions to reduce its cumulative SEND deficit	Appropriate arrangements are generally in place. However, we are concerned at the size of the SEND budget deficit and have raised an improvement recommendation, and have also raised an improvement recommendation with regard to the Council's financial sustainability.

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4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

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

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4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension claim	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.
		Self review (because GT provides audit services)	

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Appendices

A. Action plan – Audit of Financial Statements

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

Assessment	Issue and risk	Recommendations
●	**Timing of the derecognition of academy schools** Our testing has identified that there is have been delays in the removal of two academy schools from the Council's asset register on conversion to academy status. This relates to the build of the schools and the management of assets under construction. This has resulted in disposals being recorded in the incorrect financial year.	• The Council should implement processes to ensure that schools are derecognised promptly on their conversion to academy status.
●	**General ledger coding structure** The Council ledger structure is also set up in such a way that for many balance sheet codes, separate debit and credit codes are maintained. This leads to sometimes significant balances building up on codes where have not always been cleared down promptly. It should consider whether the c54,000 codes that it uses are needed.	• The Council should review the need to maintain separate debit and credit ledger codes for account balances. Where they are required for reconciliation purposes the Council should ensure that they are cleared down regularly, as a minimum every financial year. • We have agreed to review this area with officers post audit.
●	**Income and expenditure gross balances** Our review of income and non pay expenditure transaction populations identified a significant volume and value of gross debits and credits included in populations due to the way the Council uses journals to reallocate costs and income between cost centres.	• The Council could reduce the level of audit input required in these areas by "cleansing" populations prior to audit to ensure that only those transactions which directly impact on the financial statements are included in populations provided for audit. • We have agreed to review this area with officers post audit.

Controls

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

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A. Action plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
	Use of a large number of ledger codes within debtor and creditors The Council's ledger includes a large number of codes which make up the year end debtor and creditor figures. The approach taken by the Council is to maintain up separate debit and credit ledger codes for transactions such as payroll and VAT postings. This leads to large debit and credit balances on the ledger and requires a review by Council officers to ensure that balances are netted off where required in preparing the financial statements.	The Council should • review the need to maintain a high number of separate ledger codes within debtors and creditors • Establish a clear framework setting out which codes can be netted off when preparing financial statements and which codes need to be presented gross. We have agreed to review this area with officers post audit.
	Reconciliation of ledger codes Our audit testing identified one creditors code which had not been fully reconciled for some time, and included postings dating back to 1996.	• The Council should ensure that full reconciliations are undertaken on all ledger codes and old balances cleared as appropriate. • We have agreed to review this area with officers post audit.
	Derecognition of plant and equipment assets on disposal Testing of a sample of fully depreciated assets identified a number which had been disposed of or written off but were still included on the fixed asset register. As a result gross cost and depreciation are potentially overstated.	The Council should • implement processes to ensure that plant and equipment assets disposed of or written off are removed from the fixed asset register promptly, and • Review the current fixed asset register to identify any further assets still held on the fixed asset register which have been disposed of or written off.
	Calculation of the debtors credit loss allowance Our discussions with finance staff indicate that this policy has been applied for a number of years without amendment. We requested evidence to support the validity of the percentages used such as evidence on actual levels of debt write offs/recoverability but the Council has been unable to provide this level of evidence to support the reasonableness of the percentages used.	• The Council should review the basis of calculation of the credit loss allowance to ensure that it is based on current, reliable data on the level of credit losses expected.
	Journal authorisation We note that journals below £20,000 are not authorised. While the value is below materiality (c.£5m) we consider that this is a control weakness and that all journals should be reviewed and authorised.	• The Council should ensure that all journals are reviewed and approved by an independent officer.

A. Action plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
●	**Mass migration journals** The Council undertakes regular monthly journal postings in which the council transfers all amounts from individual income and expenditure codes based on cost centre and subjective to the relevant CIES categories (i.e. public health, C&FS+Schools, E&T etc). We consider that the extent of posting increases the risk that there may be errors in amounts and account codes as these are manually typed in by the finance team. We have raised a recommendation on this matter.	• The Council should review its use of journals and monthly closedown procedures to ensure that its processes continue to be appropriate. • We have agreed to review this area with officers post audit.

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B. Follow up of prior year recommendations

We identified the following issues in the audit of Leicestershire County Council's 2020/21 financial statements, which resulted in one recommendation being reported in our 2020/21 Audit Findings report.

We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Inappropriate segregation of duties as developers have access to the production environment** It is recommended that: • Management should segregate a user's ability to develop and implement changes. Privileged access to the production environment should be revoked from users that are involved in development. • If for operational reasons access cannot be fully segregated, a risk assessment should be undertaken, documented and formally accepted. Alternative options to mitigate the risk could include performing a review of change implementation activity logs. These should be regularly reviewed for appropriateness by an independent individual with evidence retained.	Evosys users now only use their accounts on a read-only access capacity. Therefore, these users are not assigned with the ability to implement changes within production. Our review of journal postings in 2021/22 identified no instances of postings being made by Evosys users.
✓	**Year end bank reconciliations** • Finance staff should fully reconcile all Council bank accounts on a monthly basis and investigate and clear all reconciling items.	No issues noted with bank reconciliations at 31 March 2022
✓	**Year end sales ledger reconciliations** • Finance staff should fully and routinely reconcile the general ledger balance to the sales ledger, and investigate and clear all reconciling items.	No issues noted with sales ledger reconciliations at 31 March 2022

Assessment

✓ Action completed

X Not yet addressed

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C. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Impact on total net expenditure £m
Write off of academy land valuation (p 12)	0	Cr land and buildings - £211 Dr revaluation reserve - £156.7 Dr Capital Adjustment Account - £54.3m	0
Correction to valuation of school buildings (p 13)	0	Dr land and buildings - £5.3 Cr Revaluation reserve - £5.3	0
Grossing up of debtors and creditors (p19)	0	Dr debtors –£43.1 Cr creditors - £43.1	0
Overall impact	**0**	**Cr land and buildings - £205.7** **Dr revaluation reserve - £151.4** **Dr Capital Adjustment Account - £54.3m** **Dr debtors –£43.1** **Cr creditors - £43.1**	**0**

C. Audit Adjustments

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

Accounts area	Auditor recommendations	Adjusted?
Note 17 – Property, Plant and Equipment	Amendment to presentation of in year movements on assets under construction.	✓
Accounting policies – Academy School land valuation	Amendment to disclosures to reflect changes to the approach taken to the valuation of academy school land	✓

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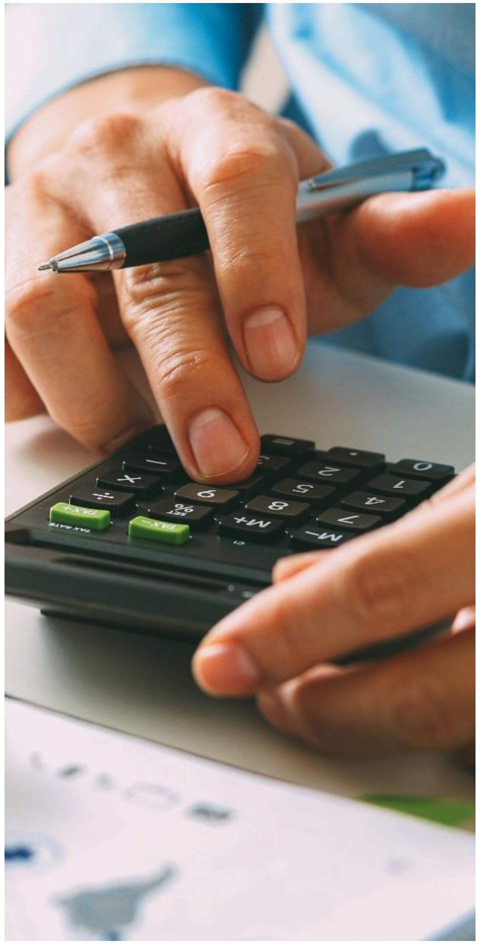
C. Audit Adjustments



Impact of unadjusted misstatements – 2021/22

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Corporate Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Overstatement of pension liability (p 14)	0	Dr Pension liability - £2.3m Cr Pension reserve - £2.3m	0	Not material
Potential understatement of debtors credit loss allowance (p22)	Dr Operating expenditure - £2.0m	Cr Debtors - £2.0m	Dr Operating expenditure - £2.0m	
Derecognition of academy schools in the incorrect financial year (p12)	Cr Loss on disposal of assets - £8.4m	No impact on position at 31 March 2022	Cr Loss on disposal of assets - £8.4m	
Potential overstatement of debtor balances due to subsequent issue of credit notes (p 9)	Dr income £1.0m	Cr Debtors £1.0m	Dr income £1.0m	
Movement on valuations on assets not revalued in 2021/22 (p13)		Dr land and buildings - £2.8m Cr revaluation reserve - £2.8m		
Overall impact	Dr Operating expenditure - £2.0m Cr Loss on disposal of assets - £8.4m Dr income £1.0m	**Dr Pension liability £2.3m** **Cr Debtors - £3.0m** **Dr Land and buildings - £2.8m** **Cr reserves - £5.1m**	**CIES net impact – Cr £5.4m**	

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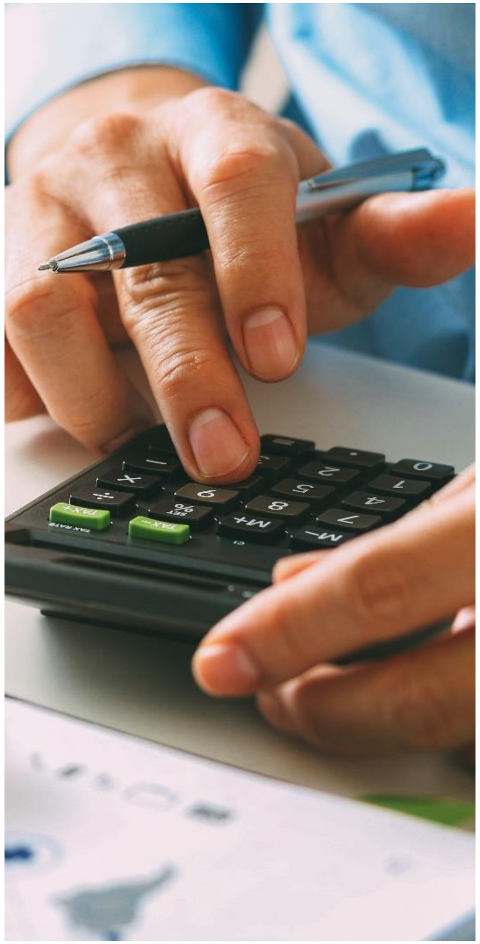
C. Audit Adjustments



Impact of unadjusted misstatements – 2020/21

The table below provides details of adjustments identified during the 2021/22 audit which relate to the position at 31/3/21 and have not been made within the final set of financial statements. The Corporate Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Impact on total net expenditure £m	Reason for not adjusting
Derecognition of academy schools in the incorrect financial year (p12)	Dr loss on disposal - £8.4m	Cr land and buildings - £8.4m	Dr loss on disposal - £8.4m	Immaterial
Correction to valuation of school buildings (p 12)	0	Dr land and buildings - £4.8m Cr Revaluation reserve - £4.8m	0	Immaterial
Overall impact	**Dr CIES - £8.4m**	**Cr land and buildings - £3.6m** **Cr revaluation reserve - £4.8m**	**Dr CIES - £8.4m**	

Impact of prior year unadjusted misstatements identified during the 2020/21 audit

No further unadjusted misstatements were reported in our prior year Audit Findings Report.

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D. Fees

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

The fees reconcile to the financial statements.

Audit fees	Proposed fee	Final fee
Council Audit	114,715	£139,777
Total audit fees (excluding VAT)	£114,715	£139,777*

* Subject to PSAA approval

Non-audit fees for other services	Proposed fee	Final fee
Teachers Pension grant claim certification	5,500	5,500
Total non-audit fees (excluding VAT)	**£5,500**	**£5,500**

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D. Fees

Fee analysis

Audit fees	Estimated fee
Scale fee	62,252
Reduced materiality	6,250
PPE valuations	2,500
Use of expert	5,000
Pension liability	4,375
Value for Money audit – new NAO requirements	19,000
ISA 540	3,900
Additional journals testing	5,000
Infrastructure	5,000
PPE – valuation errors	5,500
PPE – derecognition of schools errors	5,000
Credit loss allowance and debtors errors	5,000
Debtors, Creditors netting off error	5,500
Ledger configuration, Credits, Debits – additional testing and review	5,500
Estimated fee	**139,777**

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