Leicestershire County Council audit plan

Year ending 31 March 2023

Leicestershire County Council

May 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.

Key matters

National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Financial outlook

The Council continues to operate in an uncertain and challenging environment, balancing service delivery against the impact of its decisions on the citizens of Leicestershire, Council staff and their families.

For several years the Council has been reporting medium-term financial challenges. A draft MTFS for 2023/24 to 2026/27 was presented to Cabinet on 10th February 2023. While MTFS shows a balanced position for 2023/24 , we note the ongoing challenging position the Council faces, with estimated shortfalls of £13m in 2024/25, £50m in 2025/6 and £88m in 2026/27.

There are continuing pressures on school DSG SEND leading to a forecast 22/23 outturn of a deficit DSG reserve balance of £40m. A further £25m of savings will be required to contain High Needs expenditure within the Government grant going forwards. This links to the Council's Transforming SEND and Inclusion in Leicestershire (TSIL) programme which is focusing on changes to the whole SEND system to ensure that children with special educational needs and disabilities have their needs met at the right time, in the right place and with the right support. Based on the Council's current trajectory of growth the TSIL programme is expected to deliver £32m in financial benefits to 2028/29 with £21.5m delivered over the period of the MTFS period previously referred to.

Key matters

New Initiatives - Freeport

The Council is acting as Lead Authority in relation to the establishment and ongoing activity of the East Midlands Freeport (EMF). We understand the final business case was approved by central government on the 30th March 2023. The Council has provided up front funding to support business case development and wider set up costs in the form of a loan capped at £2.5m. Capacity funding has also been received from DLUHC. By the end of the current financial year it is expected that around £1.9m of the £2.5m will have been drawn down with the remainder in 2023/24. This loan will begin to be paid back by the end of the next financial year from the Freeport's retained business rates income stream and it is expected to be fully repaid, with interest, within the 2025/26 financial year.

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We reported our 2021/22 Audit Findings Report to the March 2023 Corporate Governance Committee. Included in this report were improvement recommendations relating to the financial statements audit. A progress update has been obtained from management however due to the proximity of prior year reporting we will re-visit as part of our final accounts procedures.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation , discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.

14

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Leicestershire County Council ('the Council') for those charged with governance.

Respective responsibilities

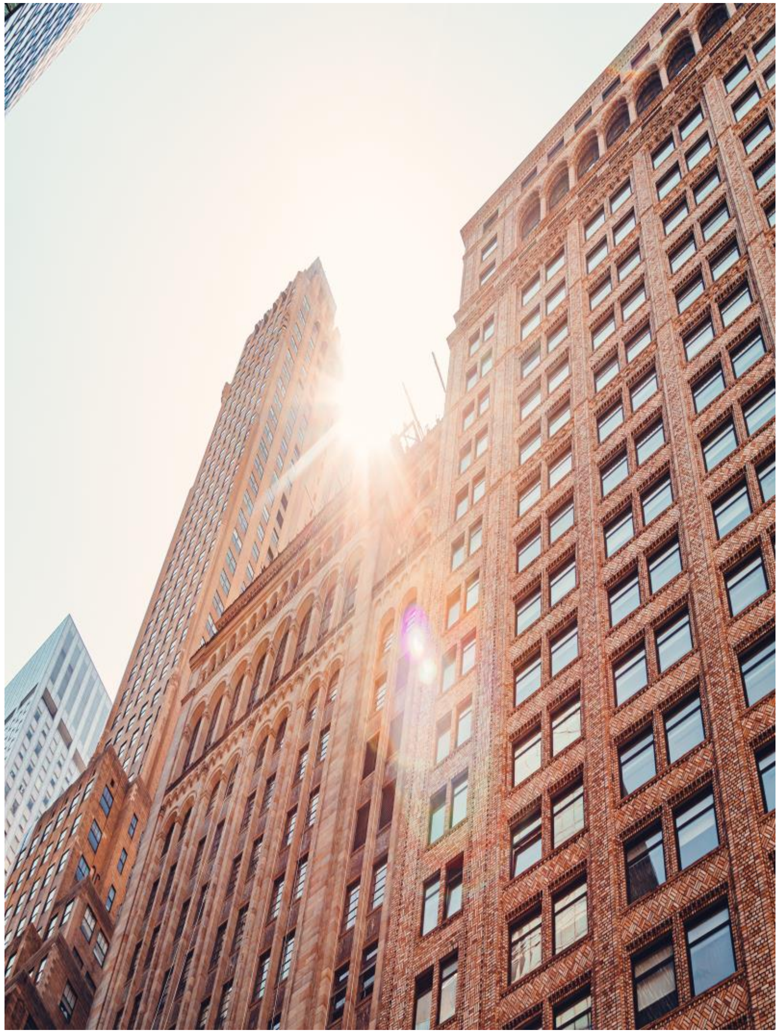
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Leicestershire County Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance Corporate Governance Committee; and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Corporate Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls
- Valuation of Land and Buildings
- Valuation of pension fund net liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £14.5m (PY £14m) for the for the Council, which equates to 1.5% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance.

Clearly trivial has been set at £700k (PY £700).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money is ongoing. We will report the results of the initial risk assessment once our work is complete.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 21.

Our work on the Council’s IT systems and business processes is ongoing at the time of writing this report. Should our work identify any changes to the proposed audit strategy we will report to management and the Corporate Governance Committee.

Audit logistics

Our final accounts visit will start in August. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor’s Annual Report.

Our proposed fee for the audit will be £128,815 [PY£139,777] the Council, subject to the Council delivering a good set of financial statements and working papers..

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The 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). Since the introduction of Oracle Fusion in November 2020 there has been an authorisation process in which all journals below the de minimis level of £20,000 are auto-approved by the system. Any journals between £20-250k are approved by members of the 'LCCGIjournal1' group. For journals greater than £250k, these are approved by a separate list of members who are part of the 'LCCGIJournal2' group.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. We will follow up our recommendations on journal authorisation (for the journals below £20,000) and mass migration journals. Due to the timing of last years audit management will not have had the time to respond to these recommendations. We will therefore increase our sampling of journals.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

17

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Revaluation of property, plant and equipment should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. Valuations are significant estimates made by management. The net book value of land and buildings held by the Council at 31 March 2022 was £446.4m. In addition to this, material adjusted misstatements were reported in relation to the Valuation of land and buildings within the 2021/22 financial statements. We have identified the valuation of land and buildings and investment property as a significant risk	We will: • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engage an independent auditor's expert valuer to provide a further review of the reasonableness of the assumptions and approach taken by the Council's valuer • test a sample of valuations at 31 March 2023 to understand the information and assumptions used in arriving at any revised valuations. • test revaluations made during the year to see if they had been input correctly into the Council's asset register • Review arrangements Council has put in place to respond to recommendations made in the 2021/22 Audit Findings Report. In particular, we will review the derecognition of academy schools and of plant and equipment.

18

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£576.4 million as at 31st March 2022) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • review whether the pension fund has reported any material uncertainty in relation to investment property valuations as at 31 March 2023 and, if so, assess the impact on disclosures in the financial statements and on our audit opinion • obtain assurances through our audit of 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 financial statements.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Other risks

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
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 identify completeness of non-pay expenses as a risk requiring particular audit attention.	We will • Evaluate the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness • gain an understanding of the Council's system for accounting for non-pay expenditure • test a sample of balances included within trade and other payables • test 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. • test a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period
Operation of ledger and coding	In our 2021-22 audit we identified that: • The general coding structure appeared to be complex • The Council uses a large number of ledger codes for debtors and creditors • A number of ledger codes had not been fully reconciled for some time • Income and non pay expenditure had a significant volume and value of debit and credit populations.	We will: • Review the ledger coding system to ensure we have a clear understanding of how management operate the ledger • Review gross and net balances presented for audit to ensure that valid balances are not inappropriately removed • Test a sample of debit and credit code reconciliations to ensure old balances are being cleared • Review the income and non pay expenditure balances (and accounts receivable and payables balances) to ensure that contras are removed prior to sampling.

20

Other risks

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
East Midlands Freeport	The Council has provided us with a briefing note on the East Midlands Freeport (EMF). This confirms: • As the accountable body for EMF LCC has agreed to provide EMF with a loan of £2.5m to cover its start up costs, to be repaid from future retained business rates. • At 31.3.23 LCC has incurred £1.7m of expenditure on behalf of EMF to be funded temporarily from its reserves • On the 30th March 2023 the EMF was given the formal approval by central government and effectively started operating from this point with its first employee, the CEO appointed • Governance documents (including a loan agreement) are to be signed by the 12 partners within the next few months • The EMF's estimated business rates funding show the Council's loan being repaid by the end of the 2025/26 financial year	We will: • Review the Council's proposed accounting treatment for the loan and associated liabilities • Review the Council's disclosure of the arrangements in its financial statements • Review the ownership of EMF and how profits, losses, assets and liabilities are shared between the partners. We need review the corporate structure and the associated accounting by the Council • Review the business rates model and accounting treatment for the Freeport's zone area.
Pooled Infrastructure Funds	During the year the Council invested £8.7m in Pooled Infrastructure Funds, similar to the existing Pooled Property Funds held. Types of pooled infrastructure include, energy infrastructure, including renewables, water treatment works and transport infrastructure such as rail and air terminals.	We will review the accounting for these arrangements.

21

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Progress against prior year audit recommendations

We identified the following issues in our 2021/22 audit of the Council's financial statements, which resulted in the following recommendations being reported in 2021/22 Audit Findings Report (March 2023). We have received a progress update from management and we will re-visit as part of the final accounts process .We will re-visit this as part of the final accounts process.

Issue and risk previously communicated	Update on actions taken to address the issue
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. **Recommendation** The Council should implement processes to ensure that schools are derecognised promptly on their conversion to academy status.	Processes updated.
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. **Recommendation** • 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.	This was first raised by the auditor in March 2023, which was too late for any further discussion and any changes to the 2022/23 accounts. Work is now underway on the 22/23 final statements. This recommendation will be reviewed with the auditors during the summer 2023, after the draft final accounts for 22/23 have been produced. Note that the 54,000 codes refers to every code combination in use; revenue, capital and balance sheet. Balance sheet codes are c.2000.
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. **Recommendation** • 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.	This was first raised by the auditor in March 2023, which was too late for any further discussion and any changes to the 2022/23 accounts. Work is now underway on the 22/23 final statements. This recommendation will be reviewed with the auditors during the summer 2023, after the draft final accounts for 22/23 have been produced.

23

Progress against prior year audit recommendations

Issue and risk previously communicated	Update – May 2023
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. **Recommendation** 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.	This was first raised by the auditor in March 2023, which was too late for any further discussion and any changes to the 2022/23 accounts. Work is now underway on the 22/23 final statements. This recommendation will be reviewed with the auditors during the summer 2023, after the draft final accounts for 22/23 have been produced.
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. **Recommendation** • 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.	The creditors code has now been fully reconciled and brought up to date for year end, 31.3.23. All balance sheet codes are subject to quarterly review.
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. **Recommendation** 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.	This is being worked on as part of the closedown of the 22/23 Fixed Asset Register.

24

Progress against prior year audit recommendations

Issue and risk	Update – May 2023
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. **Recommendation** 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.	The basis of the calculation is being reviewed as part of the 22/23 closedown.
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. **Recommendation** The Council should ensure that all journals are reviewed and approved by an independent officer.	This was first raised by the auditor in March 2023 and will be reviewed over the Summer 2023. The recommendation is agreed, but the impact needs considering further. It should be noted that the numbers are low and that only certain officers in the central Technical Accounting Team have systems access to load and process a journal.
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. **Recommendation** • 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.	This was first raised by the auditor in March 2023, which was too late for any further discussion wit the auditor and any changes (if any) to the 2022/23 accounts. Work is now underway on the 22/23 final statements. This recommendation will be reviewed with the auditors during the summer 2023, after the draft final accounts for 22/23 have been produced.

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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £14.5m, which equates to 1.5% of your draft gross expenditure for the period.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £100k.

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.

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £700k (PY £700k). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Governance Committee to assist it in fulfilling its governance responsibilities.

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office -issued its latest Value for Money guidance -to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Our risk assessment procedures in relation to the Council's Valuer for Money arrangements is ongoing. We will report the outcome of our risk assessment once work is complete. At present we consider that there are the following significant risks: the Council's financial sustainability (including its management of Special Educational Needs Expenditure and Direct School Grant deficit), the introduction of the East Midlands Freeport, and Special Educational Needs Service (with regard to Education, Health and Care Plans for children).

Audit logistics and team

Planning and risk assessment

Corporate Governance Committee
May 2023
Audit Plan

Year end audit
August - October

Corporate Governance Committee
TBC
Audit Findings Report & Draft Auditor's Annual Report

Corporate Governance Committee
TBC
Audit opinion

Corporate Governance Committee
TBC
Auditor's Annual Report

29

Mark Stocks, Key Audit Partner

Mark leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring the highest professional standards are maintained with a commitment to add value to the Council.

Mary Wren, Senior Audit Manager

As the engagement manager, Mary is responsible for overseeing delivery of our service and manging the audit process in respect of the Council. She will be in hand to answer any queries, whilst ensuring an efficient audit process.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017 PSAA awarded a contract of audit for Leicestershire County Council to begin with effect from 2018/19. The fee agreed in the contract was £62,252 (scale fee). Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing and any impact on the audit fee. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf.

30

Audit fees

	Proposed Fee 2021/22	Proposed fee 2022/23
Leicestershire County Council - Total audit fees (excluding VAT)	£139,777	£128,815

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£75,315
Enhanced audit procedures for Property, Plant and Equipment - use of Auditors Expert	£5,000
Additional work on Value for Money (VfM) under new NAO Code	£19,000
Increased audit requirements of revised ISAs 540	£6,000
Enhanced audit procedures on journals testing (not included in the Scale Fee)	£3,000
Ledger configuration and reconciliation	£7,500
Infrastructure	£2,500
Payroll – change of circumstances testing	£500
ISA 315	£5,000
East Midlands Freeport	£5,000
Proposed fee	£128,815

32

All variations to the scale fee will need to be approved by PSAA

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

In this context, 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 we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

At the date of this report Grant Thornton have not been engaged to provide any other services in relation to the 2022/23 financial year. We are in discussion as to whether you wish is to undertake the audit of the Teachers Pension Agency Return.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

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