



CORPORATE GOVERNANCE COMMITTEE – 26 JANUARY 2024

EXTERNAL AUDIT OF THE 2022/23 STATEMENT OF ACCOUNTS, ANNUAL GOVERNANCE STATEMENT AND PENSION FUND ACCOUNTS

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of Report

1. The purpose of this report is to present the auditor's annual report for 2022/23 and an update on the external audit of the 2022/23 financial statements.

Background

2. Grant Thornton UK LLP, the County Council's external auditor, is required to provide updates on the 2022/23 audit of the Council's financial statements to those charged with governance. The draft 2022/23 financial statements can be viewed on the Council's website via the following link:

<https://www.leicestershire.gov.uk/sites/default/files/2023-07/LCC-Statement-of-Accounts-2022-2023.pdf>

3. Copies of the following reports are attached as Appendices to this report:
 - Auditor's Annual Report - covers the arrangements for value for money (VfM) (Final) - Appendix A.
 - Leicestershire County Council Audit Findings Report (Interim) – Appendix B.
 - Leicestershire County Council Pension Fund Audit Plan (Final) - Appendix C.
4. Mark Stocks, (or his representative), Key Audit Partner from Grant Thornton UK LLP, responsible for the audit will attend the Committee meeting to communicate any significant findings and answer any questions.
5. With the exception of Property, Plant and Equipment (PPE) the Auditor has substantially completed the audit of the financial statements. Subject to the outstanding queries being resolved the auditor anticipates issuing an unqualified audit opinion. Once these items have been completed a subsequent meeting of this committee will be arranged to consider the auditor's final reports and for the committee to sign the letters of representation.

6. Once the audit has been concluded and reported to the Committee, the updated financial statements will be reported to the Council's Constitution Committee for signing. The external auditor will then sign off the accounts.
7. The level of audit testing has continued to increase significantly compared to previous years. This stems from increased requirements on auditors from their regulators, the National Audit Office, and is reflected in the increasing levels of audit fees.

Key Findings of the External Auditor

Annual Auditors Report (AAR) - 2022/23

8. The AAR is a detailed review of the value for money (VfM) arrangements at the Council. This is the third AAR with the first being in 2020/21. The last report, for 2021/22, was reported in March 2023.
9. The AAR covers the following areas:
 - Financial sustainability;
 - Governance;
 - Improving economy, efficiency and effectiveness;
 - Opinion on the financial statements
10. Overall, the auditor's report is positive. They have concluded that the Council has a good track record of sound financial management, has strong arrangements in place to manage the financial resilience risks and has a documented governance framework in place that ensures all relevant information is provided and challenged before all major decisions are made. No significant weaknesses have been reported. Twelve improvement recommendations have been made.

Financial Sustainability

11. This section covers the financial outturn position for 2022/23, financial planning as part of the Medium Term Financial Strategy (MTFS) for the four years 2023-27 and the delivery of MTFS savings. The review reported that the Council has managed its 2022/23 outturn within the approved budget, has a robust organisational approach to financial planning and setting the annual budget, and a robust approach to identifying savings with robust monitoring and reporting against its savings plan. It further adds that treasury management arrangements are appropriate and regularly monitored, and that benchmarking with other Councils shows that the Council has a good level of reserves to meet unplanned or emergency events.
12. Within this section of the report three improvement recommendations were made.
13. Improvement recommendation 1: The Council needs to ensure it maintains a robust framework of financial governance to ensure risks to financial resilience and sustainability are adequately monitored and controlled.
14. Management response: Options to balance the 2024/25 budget are currently being considered. An updated draft budget for 2024/25, along with provisional estimates for 25/26 to 27-28 (including details of planned savings programmes and other measures being taken to control future expenditure and maximise income), were

presented to the Cabinet in December 2023. Following this there will be a period of budget consultation leading to a final budget position being presented to Cabinet and Full Council in February 2024. Further savings options are being identified alongside implementation of stronger financial controls to ensure limited resources are focussed on delivering essential services.

15. Improvement recommendation 2: The Council needs to ensure that the Transforming SEND and Inclusion in Leicestershire (TSIL) programme is supported by robust governance arrangements that encompass both its financial challenges and those arising from service delivery.
16. Management response: TSIL Programme governance is in place. Benefits monitoring is within the process where KPI's are established and monitored for all workstreams and consider both contract compliance and the MTFS. This gives visibility and challenge to all financial metrics which are being built into service's improvement cycles and also departmental and corporate financial monitoring.
17. Improvement recommendation 3: The Council needs to ensure that forecasting assumptions over income; in particular capital receipts from sales of assets should be realistic and deliverable to ensure financial sustainability is not impacted further.
18. Management response: Capital receipts by their nature are uncertain in both timing and amount. Estimates are reviewed during the year and updated as part of the refresh of the MTFS and mid year capital programme review. The budget amounts are based upon the sale of identified assets weighted for the risk of realisation.

Governance

19. The main sections covered include: arrangements around risk management, internal audit and counter fraud, informed decision making, standards and behaviour and net zero. The report summarises that there are no gaps in risk management and it is a robust approach; there are adequate arrangements in place to provide internal audit and counter fraud services, arrangements are in place to ensure all relevant information is provided to decision makers before key decisions are taken, and arrangements are in place to monitor standards, including legal, regulatory and in terms of officer or member behaviour.
20. Four improvement recommendations were made in this area.
21. Improvement recommendation 4: To further enhance its governance arrangements, the Council should consider completing a review of effectiveness with any areas identified for improvement or learning to be appropriately actioned.
22. Management response: Work for this is already underway in conjunction with the Democratic Services team. Information will be discussed with members immediately following the January 2024 committee. The outcomes of the review of effectiveness are scheduled to be included within the Annual Report of the Committee to full Council in May 2024 and will be considered for the draft Annual Governance Statement improvement plan (again scheduled for May 2024). Reference to an annual review will be considered for the CGC terms of reference.

23. Improvement recommendation 5: To further enhance and strengthen the risk management arrangements in place, the Council should ensure the consideration of environmental impact, corporate risks are aligned to the Strategic Plan, actions are supported by SMART methodology and an external independent review is completed.
24. Management response: Environmental impact is now in Risk Scoring Criteria, the Council's Strategic Plan is referenced in the Strategy, SMART actions are already detailed in the Strategy with departmental risk champions to be reminded, and the planned external independent review is completed.
25. Improvement recommendation 6: To further enhance and strengthen the arrangements for providing internal audit and counter fraud services, the Council should ensure; a three year internal audit strategy and audit plan is approved, agreement is in place with Nottingham City Council's Head of Internal Audit (NCIA) to provide timely reporting on controls being operated on behalf of the County Council, an independent external assessment (EQA) of the internal audit service is commissioned and the follow up of low and medium internal audit recommendations is implemented.
26. Management response: An internal audit strategy and refreshed charter will be prepared for the Corporate Governance Committee, discussions are underway to ascertain when NCIA will be able to provide an overall opinion on East Midlands Shared Services, an EQA has been commissioned and outcomes are scheduled for March/April 2024, and a model to follow up on low and medium recommendations has been developed and is being reviewed.
27. Improvement recommendation 7: the Council needs to ensure there is a robust Governance framework in place to support delivery of its Net Zero Action Plan, including the number of actions is appropriate, deliverable and focussed.
28. Management response: Having completed the first year of action under the net zero strategy and action plan, and in light of the Council's wider financial position, any future review of the commitments in the net zero action plan will take account of the auditor's recommendation. The E&T department will facilitate consideration of recommendations as part of the future net zero action plan review.

Improving Economy, Efficiency and Effectiveness

29. This section covers performance measurement, partnership working, and commissioning and procurement.
30. The report noted the Council has embedded processes in place to monitor and report on performance, has a number of partnership working arrangements, and contract procedure rules that clearly document the rules governing the process including financial thresholds, delegated authority and exceptions.
31. Five improvement recommendations have been made in this section.
32. Improvement recommendation 8: To further enhance and improve the arrangements for reporting on performance the Council should strengthen its processes for ensuring the quality and accuracy of data in its reporting, consider adopting a

consistent approach to performance recording and monitoring at a departmental level.

Management response: The Council is working with Gartner Consulting to develop a data strategy for the organisation; the Council's current performance reports cover the key elements of a good performance report, However, the look and feel of these have in some cases been adapted in response to comments from DMTs and elected members to better meet their needs. The Council's Strategic Plan, including supporting outcomes/measures, is due to be reviewed shortly. This will allow for a sharper focus on deliverability, in the light of the current budget pressures, and further tighten target setting and performance reporting.

33. Improvement recommendation 9: The Council needs to take action to fully understand the reasons for the worsening position in the time taken to investigate and resolve complaints within Children's Social Care, and that action is taken to mitigate any risk to the Council and improve its outcome in this area.

Management response: During 2022/23 the Council encountered significant challenges with respect to commissioning of independent stage 2 investigations. The Council has now recruited an in-house investigator and this will see improvements to the timescales for completion of investigations during 2023/24.

34. Improvement recommendation 10: The Council should maintain oversight of the operating activity and governance arrangements in place within the East Midlands Development Company and provide assurance in respect of any emerging risks to the Council.

Management response: The Council has appointed the Assistant Chief Executive to the Board of the East Midlands Development Company (DevCo) and the governance arrangements are kept under continuous review by the Chief Executive and Director of Law and Governance demonstrating senior corporate oversight of the council's engagement with DevCo. A report on any significant issues in the operation of external bodies including the DevCo is presented annually to the Corporate Governance Committee. Reports are produced regularly to the Cabinet on the operation of the Devco and it is intended that this will continue to be the case. The Council's approach to the funding demonstrates the rigorous approach to the principles of economy, efficiency and effectiveness.

35. Improvement recommendation 11: As the accountable body, the Council needs to take a lead in ensuring that governance arrangements are approved and embedded within the East Midlands Freeport.

Management response: There has been a delay in the completion of the governance documents as result of complexity relating to the application of the subsidy control rules which has involved developing a bespoke process by which a potential occupier is assessed to be eligible for business rates relief. This has been reliant upon a policy position from the DLUHC which has only recently been provided. Whilst the delay is regrettable, it is purposeful and necessary. The Council is leading on ensuring that the governance arrangements are approved and embedded. It is important to note that the Freeport Board has since March 2023 resolved to operate in accordance with the approved Members' Agreement and Articles of Association which address all

of the important governance arrangements for the Freeport and its Board as well as the role of the Council as Accountable body.

36. Improvement recommendation 12: Commissioning and procurement - the Council should; ensure there is a robust governance framework in place for the approval, reporting and criteria for contract exceptions or extensions, should review its financial thresholds for procurement activity and consider a cost benefit analysis of transformational change such as a central purchasing unit or shared provision with neighbouring authorities.

Management response: CMT and subsequent DMTs have been attended regarding improvements around exceptions and governance. Contract Procedure Rules are being re-written around exceptions, extensions and modifications with additional controls added in at £100,000. Target Operating Model for procurement and contract management is being reviewed.

Opinion on the Financial Statements

37. The report also includes summary details of progress on the audit of the County Council and its Pension Fund. Further details are provided in the next sections of this report below.

Interim Audit Findings Report – Leicestershire County Council 2022/23

38. The draft accounts were completed as planned at the end of June 2023. In line with the Audit Plan the external audit started in August 2023. It should also be noted that, as a result of increasing regulation on audit firms, the external audit for 2022/23 has continued to increase significantly in its coverage and expectations.
39. With the exception of Property, Plant and Equipment (PPE) the Auditor has substantially completed the audit of the financial statements. Subject to the outstanding queries being resolved the auditor anticipates issuing an unqualified audit opinion.
40. There have been delays in providing the evidence required to support the valuations of PPE used in the Council's accounts. The Council uses an external firm of Valuers to undertake the valuations. The original valuations were provided on time and were used in the Council's draft accounts reported in June 2023. However, there have been delays during the audit when trying to obtain the required level of evidence to support the calculations for the sample requested by the auditor. Changes in staff at the external valuation firm has meant that there have been delays and in a number of cases valuations have had to be reperformed. The main issues have now been resolved and the information will be provided to the auditor.
41. The auditor can then recommence their work and can issue a final audit findings report. A subsequent meeting of this committee will then need to be arranged to receive the final report and approve the letters of representation.
42. At this stage the auditor has identified one material issue and three non-material issues that the Council has agreed to adjust in its financial statements. These adjustments do not impact on the general fund of the Council. Two other smaller

issues have been identified for which adjustments will not be made to the accounts. These relate to :

- assets not revalued, £1.8m overstated – estimated valuation change for assets not part of the scheduled annual valuation (5 year rolling programme), and
- an overstatement of rental income of £1.4m – income recognised in the old year but relates to the new year. This process is being changed for 2023/24.

Audit Findings – risks identified in the audit plan

43. Areas where issues have been reported are included below.

44. Management override - this section covers:

- Journal testing – no issues reported.
- General Ledger coding structure and balances – no issues identified but comments regarding the number of codes used. Further work will be undertaken but the high volume may relate to the granularity of detail provided by the Council compared with other Councils.
- Monthly allocations (journal postings) – process to allocate the income and expenditure net totals to the balance sheet (to reconcile the balance sheet).
- Journal authorisation below £20,000 – auto approved, segregation is in place and is limited to the central accounting team only.

45. Valuation of land and buildings – (3 immaterial adjustments)

- Audit work is ongoing for evidence of valuations.
- Assets under construction – two assets became operational in year but were not revalued (normal process is to value these in the following year). Separate valuations were commissioned which reported an overstatement by £3.9m. This will be updated in the final accounts.
- Assets not revalued in year – the Council has a rolling 5 year valuation programme. It then uses estimates to assess if assets not valued in that year have changed significantly in value. Additional valuations commissioned show a reduction of £4m is required. This will be updated in the final accounts.
- Revaluation reserve and fixed asset register historic difference, £2m. This will be updated in the final accounts.
- These corrections have no impact on the general fund of the Council, they affect the carrying value of land and buildings and unusable reserves in the balance sheet.

46. Valuation of the pension fund net – (1 material adjustment)

- An adjustment to increase the net pension liability by £14.2m is required. The pension liability comprises the net LGPS pension fund (£14.2m net asset – first time in more than 15 years), and unfunded pension liabilities relating to added years for the LGPS and the Teachers' pension scheme £34.6m liability. Together these give a net overall pension liability of £20.4m which was used in the draft accounts. However due to the net asset position on the LGPS scheme there is a technical accounting assessment required (per IFRIC14). This places a restriction over the amount of a net asset that can be recognised. In principle, the amount recognised as an asset may not exceed its recoverable amount. An

asset ceiling calculation was subsequently undertaken which shows that the net LGPS asset (£14.2m) cannot be realised due to future minimum funding requirements of the LGPS and should not have been recognised in the accounts. This will be amended in the final accounts. It is a technical accounting adjustment and does not affect usable reserves.

47. Operation of ledger and coding. No issues were found, but recommendations have been made to continue to review the structure of the ledger and the number of codes used to reconcile balances. The Council will continue to review this area and where possible reduce the number of codes used.

Section B – Recommendations

48. Asset Register and valuations process housekeeping. Recommendation to simplify the capital accounting processes, including aligning the valuation date for scheduled valuations and in year additions to the year end date. The Council will review options with its new external valuer during 2024 to assess the practicality of this and having adequate time to complete its checks and to draft accounts by the necessary deadlines.
49. Valuer terms of engagement. Recommendation to ensure formal terms are signed each year prior to the commencement of the valuation process. This has been agreed and will be implemented with the new external valuers.
50. Asset useful economic lives (UEL). Recommendation to continue to review assets with a nil UEL where they are still in use. This has been agreed.
51. VAT treatment of accruals. Recommendation to review accruals to ensure VAT is not included in error. Agreed, additional advice will be given to budget managers as part of the year end guidance.
52. Overborrowed position. Recommendation to confirm that the position is temporary (actual debt exceeds the capital financing requirement). Agreed, this situation is explained in the Treasury Management Strategy Statement and the draft MTFS. These show for 2024-28 a requirement for new prudential borrowing of £93m which will revert the current overborrowed position to an underborrowed position during the MTFS period.
53. Clearance of old reconciling differences within control accounts. Recommendation to ensure these are written off. Agreed, action will be taken to clear these by year end, 31 March 2024.
54. Rental income recognised in the financial year raised rather than the period that it relates. Recommendation to review that this is not more widespread. Agreed, action has already been taken to correct this going forwards in 2023/24 and additional guidance will be provided as part of year end guidance notes.

Audit Fees

55. The proposed fee in the audit plan was £128,815. The auditor proposes a final fee of £140,565. The increase in the fee is due mainly to the additional work required on PPE valuations and the pension fund (IFRIC 14), necessary for the accounts.

Audit Findings Report – Leicestershire County Council Pension Fund 2022/23

56. The auditor is currently finalising their work and plans to issue the audit findings report later this month. This will be reported to the Committee along with the final County Council audit findings report.
57. The auditor's work is substantially complete and they anticipate issuing an unqualified opinion for the pension fund. No material corrections are required to the accounts.
58. An interim pension fund audit plan was reported to the committee in May 2023. The final audit plan is attached as Appendix C to this report. Overall, the final audit plan is similar to the interim plan with minor changes to materiality levels following receipt of the draft accounts.
59. The proposed audit fees for the pension fund have been increased slightly from £36,793 to £38,193 due mainly to work required to review the Triennial pension fund valuation.

Production of Draft Accounts 2023/24

60. The draft Accounts for the Council and the Pension Fund are planned to be completed by the end of June 2024. This is the same completion date as in recent years.
61. The Accounts and Audit 2015 regulations require draft accounts to be published by the end of May each year. This date had been extended for financial years 2019/20, 2020/21 and 2021/22 to the end of July, due to Covid-19. In April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) reverted to the deadline of the end of May. However, this was too late to make any changes last year.
62. Delays to the ongoing audit of the 2022/23 statements and increasing regulation on audit firms increasing audit coverage and expectation, it is not practical to close the accounts by the end of May this year. However, this will be reviewed again for the 2024/25 financial year accounts. A note will be placed on the Council's website to advise the publication of the draft accounts will be at the end of June.
63. As advised by the external auditor in previous updates to the Committee there are significant capacity issues in the audit market. This comes from a combination of staff recruitment and retention combined with the change in regulations which has increased the volume of work required to be undertaken as part of the annual audit. Mr Stocks provided assurance that Grant Thornton would continue to work to stabilise its audit team and adjust to the increased audit work required, but said that delays might continue for some time until the market could recover.

Recommendations

64. The Committee is asked to note the Auditor's Annual Report and consider the issues raised in the auditor's Audit Findings Reports.

Background papers

65. Corporate Governance Committee 26 May 2023 – External Audit Plan 22-23
<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=7129&Ver=4>

Circulation under the Local Issues Alert Procedure

66. None.

Equality and Human Rights Implications

67. There are no discernible equality and human rights implications.

Appendices

Appendix A – Auditor’s Annual Report 22/23 (final)

Appendix B – Interim Audit Findings Report for Leicestershire County Council 22/23

Appendix C – Pension Fund Audit Plan 2022/23 (final)

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