Grant Thornton

Leicestershire County Council audit plan

Year ending 31 March 2024

Leicestershire County Council

24 May 2024

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

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local Government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing 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 have taken account of this national context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our report About time? in March 2023 which explored the reasons for delayed publication of audited local authority accounts.

In our view, to enable a timely sign off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers.

Key matters

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.

Like many other in the sector, the Council has been reporting medium-term financial challenges. The Medium Term Financial Strategy (MTFS) for 2023/24 to 2026/27 was presented to County Council in February 2023 shows a balanced position for 2023/24. Moving forward, the MTFS showed estimated shortfalls of £13m in 2024/25, £50m in 2025/26 and £88m in 2026/27.

There are continuing pressures on school DSG SEND leading to a forecast 23/24 outturn of a deficit DSG reserve balance of £46m. The High Needs Grant allocated to Leicestershire for 2023/24 totals £105,082,000. The cost of placements for children with Special Educational Needs and Disabilities in 2023/24 is budgeted to be £112,643,000.

Freeport

The East Midlands Freeport (EMF) is the UK's only inland Freeport and features three main 'tax sites' straddling three East Midlands counties. In June 2022, a permanent non-executive Chair of Board was appointed. A Chief Executive started in post in March 2023 and has put together a small team to implement delivery of the Business Plan objectives of the EMF. The Council has increased the loan advanced to the EMF in the period under review to £2.8million broken down as follows; as at 31 March 2024 £1.1million and 31 March 2023- £1.7million . In the period under review £0.6m was received from business rates collected. The balance of the loan is therefore £2.2million as at 31 March 2024. During the year the loan agreement was amended to state that the maximum loan that can be advanced to the EMF is £4million.

Key matters - continued

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 in this Audit Plan has been agreed with the Director of Corporate Resources.
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work on site with you and your officers. Please confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. This is also in compliance with our delivery commitments in our contract with PSAA.
- We offer a private meeting with the Chief Executive twice a year, and with the Director of Corporate Resources quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Corporate Governance Committee, to brief them on the status and progress of the audit work to date.
- 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 will continue to provide you and your Corporate Governance Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Corporate Governance Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- With the ongoing financial pressures being faced by local authorities, in planning this audit we have considered the financial viability of the Council. We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Council.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.
- There is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue– refer to page 10.

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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

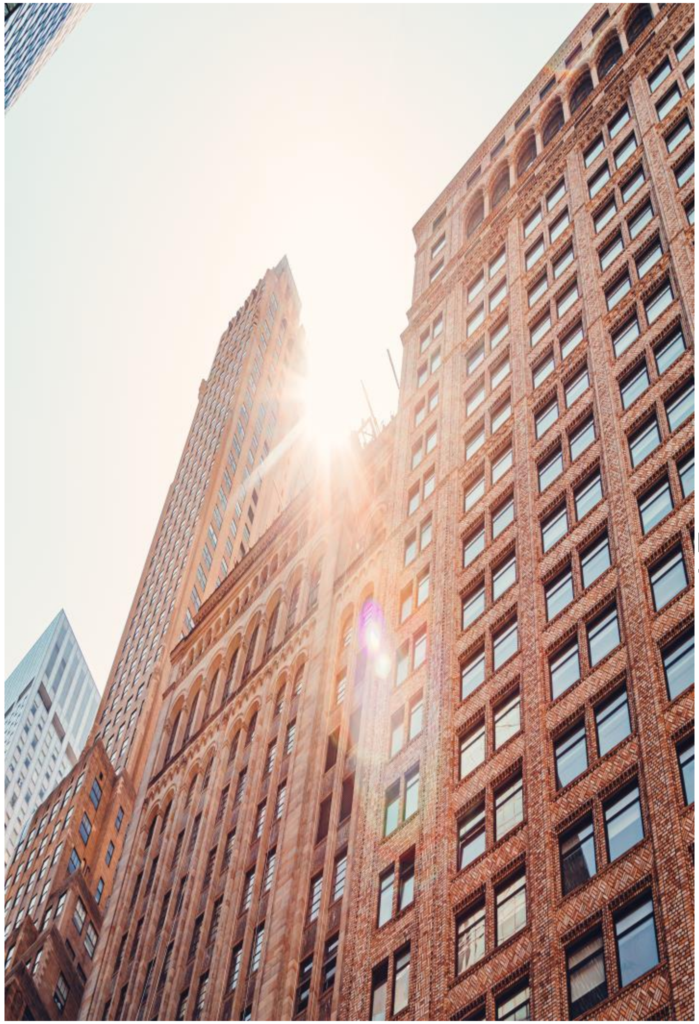
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment 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 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 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 £15.2m (PY £14.5m) for the Council, which equates to 1.5% of your prior year gross operating costs 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 £760K (PY £700k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not yet commenced, we will update you separately once this has been concluded.

Audit logistics

Our interim visit will take place in July. Our final accounts visit will take place in October. Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our preference is to work with you in a hybrid model, spending at least two days on site with the finance team and completing other work remotely.

Our proposed fee for the audit will be £267,006 (PY: £132,815), subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

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 Oracle Fusion journals processed by the finance team below the de minimis level of £20,000 are auto approved by the system	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; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

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'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)

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
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) We have determined that the risk of fraud arising from expenditure recognition could be rebutted, because: • there is little incentive to manipulate expenditure recognition. • opportunities to manipulate expenditure recognition is very limited • the culture and ethical frameworks of local authorities, including Leicestershire County Council, mean that all forms of fraud are seen as unacceptable.	While the risk has been rebutted, as a material balance, we will still undertake audit procedures as follows, • Update our understanding of the Council's business processes associated with accounting for expenditure and payables. • Agree, on a sample basis, expenditure and year end creditors to invoices and cash payment or other supporting evidence

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Significant risks identified- continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Risk of fraud in 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 ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: There is little incentive to manipulate revenue recognition Opportunities to manipulate revenue recognition are very limited The culture and ethical frameworks of local authorities, including Leicestershire County Council mean that all forms of fraud are seen as unacceptable.	Notwithstanding that we have rebutted this risk, we will still undertake a significant level of work on the Council's revenue streams, as they are material. We will: <u>Accounting policies and systems</u> • Evaluate the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code. • Update our understanding of the Council's business processes associated with accounting for income. <u>Fees, charges and other service income</u> • Agree, 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> • For other grants we will sample test items back to supporting information and subsequent receipt, considering accounting treatment where appropriate.

Significant risks identified - continued

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. The Council revalues its land and buildings on a rolling basis to ensure that the carrying value is not materially different from the current value or fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements. The net book value of land and buildings held by council as at 31 March 2023 was £453m. In addition, there were material adjusted misstatements that were reported in relation to the valuation of land and buildings within the 2022/23 financial statements.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to 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 valuation was carried out to ensure that the requirements of the CIPFA code are met; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register and accounted for correctly; • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end; and • review arrangements Council has put in place to respond to recommendations made in the 2022/23.

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Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This 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, with reference 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 - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	The Council'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 and the sensitivity of the estimate to changes in key assumptions. The gross defined liabilities and assets as at 31 March 2023 were £1,653m and 1,634m respectively. We therefore identified valuation of the Council's pension fund net liability as a significant risk.	We will: • Update our understanding of the processes and controls put in place by management to ensure that the Council'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 Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council 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 pension asset valuations as at 31 March 2024 and, if so, assess the impact on disclosures in the financial statements and on our audit opinion; and • 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.

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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 for compliance with the CIPFA Code; • Update our understanding of the Council's business processes associated with 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; and • Test a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting.
East Midlands Freeport (EMF)	The Council as at 31 March 2024 advanced a loan of £2.2m to fund the operations of the freeport. From discussions with management, we note that loan agreement was amended to state that the maximum loan that can be advanced to the EMF is £4million. A draft loan agreement had been shared with the 12 EMF partners but was not signed as at 30 March 2023. The EMF was given the formal approval by Central Government in the period under review. The retained business rates (RBR) from the freeport zone will be used to repay the loan the Council has advanced. An NNDR1 return prepared for 2023/24 showed that £0.56m was to be paid to the Council. Forecasts made by the Council for EMF show further RBR of £3.6m in 24/25 and £6.3m in 25/26 which will clear the start-up advanced.	We will: • Review the Council's accounting treatment for the loan for compliance with the CIPFA Code; • Review the disclosure of the arrangements in the financial statements; • Review the joint venture agreement for EMF and how profits, losses, assets and liabilities are shared between the partners; and • Review the business rates returns and the forecasts to assess reasonability.

Other risks

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Pooled investments	The Council has invested in pooled infrastructure funds. Types of pooled infrastructure include energy infrastructure including renewables, water treatment works and transport infrastructure. By their nature Level 3 investment valuations lack observable measurable inputs. Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2024. As at 31 March 2023, the Council has a long-term investment of £22.5m in pooled property investments, £8.7m in pooled infrastructure investments, £28.7m in private debt investments and £15.5m in capital release funds. Pooled property is valued per the year end bid price or net asset value (NAV) statement. Private debt is valued per the year end NAV statement.	We will • Evaluate management's process for valuing Level 3 investments; • Review the nature and basis of estimated values and considered the assurance management has over the year end valuations provided for those types of investments, to ensure that the requirements of the Code are met; • Independently request year-end confirmations from investment managers; • For a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date, reconciling those values to the values at 31 March 2024 with reference to known movements in the intervening period where necessary; • tested valuations made during the year to see if they had been input correctly into the Council's ledger; and • Where available, reviewed investment manager service organisation reports on design effectiveness of internal controls. Identify the key valuation controls at the fund managers (and where appropriate the custodians) and consider the design effectiveness of the controls through enhanced documentation of our consideration of the relevant controls reports.

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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 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 financial statements, consider and decide upon any objections received in relation to the 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 2022/23 audit of the Council's financial statements, which resulted in the following recommendations being reported in our 2022/23 Audit Findings Report. We received a progress update from management, and we will re-visit as part of the final accounts process.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Asset register and valuations process housekeeping** The valuation process is currently over complicated, and some accounting practices result in additional audit time being incurred to validate/understand the logic of transactions. Examples include: • Assets are valued at 1st October rather than the year end requiring additional reconciliation to consider the movements in values from to the year end. • Capital additions and assets under construction brought into use in year are carried at historic cost and then revalued in the following financial year. • Finance leased assets are not included in the FAR and are processed as a manual adjustment to arrive at the figures to be included in the financial statements. • In the draft financial statements presented for audit £53.7m has been included in the financial statements at historic cost relating to land and building which should be subject to revaluation in accordance with the CIPFA code Recommendation We strongly recommend the council aligns its valuation date to the year end. Capital additions and assets under construction should be processed in the FAR throughout the year and included in the revaluations process. Finance leased assets should be included in the FAR Land and buildings subject to formal revaluation per the CIPFA Code should be revalued in line with the Code requirements and not included in the accounts at historic cost.	As these points were raised late in 2023/24 which was too late for any further discussion and any changes to the 2023/24 accounts processes. Work is now underway on the 2023/24 accounts. This recommendation will be reviewed with the auditors during the summer 2024, after the draft 2023/24 accounts have been produced. Nb. A valuation date of 1 October is used for practical reasons to allow time for the external Valuer to undertake 500+ valuations (after 1 October), be reviewed and time to include in the Councils accounts in April.

Progress against prior year audit recommendations - continued

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Valuer terms of engagement** We note that it is mandatory under the RICS valuation guidance for the Council's valuer to prepare Terms of Engagement documents for any valuation completed. Although the Council issued outline instructions to the valuer, the audit suggests that a formal Terms of Engagement document should be prepared by the valuer before commencing the work. The Council should review and sign off on the document to ensure that the work is completed as required and in line with the guidance. Recommendation The Council should ensure that formal Terms of Engagement are in place and received from the Council's valuer prior to commencement of the valuations process.	The new contract with Align Partners contracted in 2023/24 has considered this recommendation. The audit team will review the instructions to the new valuer as part of our work at year end.
✓	**Useful economic lives** The Council reviewed its nil NBV assets in 22/23 and identified £5.4m of assets no longer in use or scrapped, which were processed as disposals. A residual balance of £8.9m was confirmed to relate to assets still in use, but further sample testing showed some assets should have been treated as disposals, indicating a weakness in the review process. This suggests depreciation charges are not being correctly spread across financial years. The issue is not material but indicates a weakness in the process. **Recommendation** The Council should ensure that the useful economic lives for assets are assessed annually especially with assets still in use.	Management has reviewed this during the period under review. The audit team will evaluate as part of our year end audit.

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Progress against prior year audit recommendations - continued

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	VAT treatment During testing of Operating Expenditure and Agency costs, three errors have been identified relating to the incorrect inclusion of VAT on accruals. Although the issue is not material, the Councils should ensure, VAT is appropriately considered when calculating accruals. **Recommendation** The Council should review its processes in relation to accounting for VAT and ensuring expenditure is accounted for in the correct financial year.	Additional advice has been provided to budget managers as part of the 2023/24 year end guidance.
✓	Over borrowed position The Council's narrative statement refers to its overborrowed position, which is permitted in the short term under the Prudential Code. However, the audit found that the Council's external debt as a percentage of CFR is 125%, outside of the expected range. The Council reported this overborrowed position of £54m in its Treasury Management Strategy, and it is expected to revert to an under-borrowed position over the medium term. **Recommendation** The Council need to ensure the overborrowed position continues to be a short term position and that as the Treasury Management Strategy suggests that the position is reversed in the short term.	Agreed, this is an historic issue caused by changes in the way government have funded Councils for capital expenditure. The Councils Treasury Management Strategy sets out the approach to the CFR and debt and how it will revert to an underborrowed position within the next two years. The position has also improved significantly during 2023/24 following the early repayment of external debt, reducing the overborrowed position as at 31.3.24 to £18m.

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Progress against prior year audit recommendations - continued

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Clearance of old reconciling items within control accounts** Our testing of creditors identified 2 payroll pay over control accounts with unexplained differences of £120k and £140k, relating to prior years, which require investigation and possible write-off. Although these differences are below the trivial threshold, carrying them forward can lead to a growing balance and difficulty in identifying reasons for differences. The audit also identified cumulatively trivial variances in the Council's School bank reconciliations. **Recommendations** Control accounts should be reviewed, and any old balances written out instead of carrying them forward.	Agreed. The accounts are being corrected as part of the 2023/24 closedown procedures.
✓	**Treatment of rental income** The Council recorded rental income in the 2022/23 financial statements that pertains to future accounting periods, with the focus on including four quarters of invoices regardless of the period to which the income pertains. However, this is an incorrect application of the accruals concept. **Recommendation** The Council should conduct a review to determine if the issue of incorrect application of key accounting concepts is more widespread. If necessary, training should be updated to ensure that these concepts are applied consistently throughout the financial year and not just at year-end.	Additional advice has been provided to budget managers as part of the 2023/24 year end guidance.

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 £15.2m, which equates to 1.5% of prior year gross operating costs for the year.	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.

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Our approach to materiality

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 Corporate Governance 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 Corporate Governance 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 Corporate Governance 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 £760k (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.

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Our approach to materiality

	Amount (£m)	Qualitative factors considered
Materiality for the financial statements	15.2	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 £15,2m, which equates to 1.5% of your draft gross expenditure for the 22/23 period.
Materiality for specific transactions, balances or disclosures - senior officer remuneration	0.1	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.

IT audit strategy

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.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Oracle Fusion	Financial reporting	• Detailed ITGC assessment (design effectiveness only)

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Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024.

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.

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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.

Risks of significant VFM weaknesses – continued

The Audit Code sets out that the auditor’s work is likely to fall into three broad areas:

- planning;
- additional risk-based procedures and evaluation; and
- reporting.

We undertake initial planning work to inform this Audit Plan and the assumptions used to derive our fee. A key part of this is the consideration of prior year significant weaknesses and known areas of risk which is a key part of the risk assessment for 2023/24. We set out our reported assessment below:

Criteria	2022/23 Auditor judgement on arrangements informing our initial risk assessment		Additional risk-based procedures planned
Financial sustainability	Amber	No significant weaknesses in arrangements identified, but three improvement recommendations made.	We will follow up progress against the key recommendations made and ensure that our work assesses the current arrangements in place. We will undertake sufficient work to ensure that we have documented our understanding of the arrangements in place as required by the Code of Audit Practice.
Governance	Amber	No significant weaknesses in arrangements identified, but four improvement recommendations made.	
Improving economy, efficiency and effectiveness	Amber	No significant weaknesses in arrangements identified, but five improvement recommendations made.	

G	No significant weaknesses in arrangements identified or improvement recommendation made.
A	No significant weaknesses in arrangements identified, but improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendations made.

Risks of significant VFM weaknesses – continued

Our planning work for 2023/24 is not yet complete, and we will update you separately once this has concluded,

Audit logistics and team

Planning and risk assessment

Corporate Governance committee
20 May 2024

Audit Plan

Interim audit
July 2024

Year end audit
16 Sept to 06 Dec 2024

Corporate Governance committee
13 Dec 2024

Audit Findings Report, Auditor's Annual Report and Audit opinion

Evah Mutama, Audit Manager

As manager, Evah will manage the audit process and work with officers and the audit team to ensure the smooth planning and delivery of the audit. She will oversee the on-site team and discuss any issues with you during the audit process as well as any questions that you may have throughout the year.

Helen M Lillington, Key Audit Partner

Helen is the engagement leader, taking overall responsibility for ensuring we provide a high-quality service. She will work with Evah and the audit team to ensure we have fulfilled our responsibilities as your auditor and sign the audit opinion and auditor's annual report.

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 cleansed, are made 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

Audit fees are set by PSAA as part of their national procurement exercise. In 2017, PSAA awarded a contract of audit for Leicestershire County Council to begin with effect from 2018/19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors The scale fee set out in the PSAA contract for the 2023/24 audit is £254,456.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/' 47

Assumptions

In setting these 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
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees

	Proposed fee 2023/24
Leicestershire County Council scale fees	£254,456
ISA 315	£12,500
Total audit fees (excluding VAT)	£267,006

Previous year

In 2022/23 the scale fee set by PSAA was £75,315. The indicative fee for 2022/23 audit was £132,815, however the audit is not yet signed.

Relevant professional standards

In preparing our fees, 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.

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 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.

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

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Service	Fees £	Threats	Safeguards
Audit related			
Local Transport	15,000	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 £15,000 in comparison to the total fee for the audit of £267,006 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.

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Independence and non-audit services continued

Service	Fees £	Threats	Safeguards
Audit related			
Teachers pension Agency return	20,000	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 £20,000 in comparison to the total fee for the audit of £267,006 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.

IFRS 16 'Leases' and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

> "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration." In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if a body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset

Council's systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Planning enquiries

As part of our planning risk assessment procedures we have enquired with management and will update once the responses have been received.

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link.

[IFRS 16 Application Guidance December 2020.docx (publishing.service.gov.uk)]

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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	•	•

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.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
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		•

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.

Escalation policy

The Department for Levelling Up, Housing and Communities are proposing to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future.

As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the Authority's responsibility to produce true and fair accounts in accordance with the CIPFA Code by the 31 May 2024 and respond to audit information requests and queries in a timely manner.

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

Step 1 - Initial Communication with Director of Corporate Resources (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)

We will have a conversation with the Director of Corporate Resources to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

Step 2 - Further Reminder (within two weeks of deadline)

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

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Step 3 - Escalation to Chief Executive (within one month of deadline)

If the delay persists, we will escalate the issue to the Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding..

Step 4 - Escalation to the Corporate Governance Committee (at next available Corporate Governance Committee meeting or in writing to Corporate Governance Committee Chair within 6 weeks of deadline)

If senior management is unable to resolve the delay, we will escalate the issue to the Corporate Governance Committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

Step 5 – Consider use of wider powers (within two months of deadline)

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.

Addressing the local audit backlog - consultation

Consultation

The Department for Levelling Up, Housing and Communities (DLUHC), working with the FRC, as incoming shadow system leader, and other system partners, has put forward proposals to address the delay in local audit. The proposals consist of three phases:
Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.
Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.
The consultation ran until 7 March 2024. Full details of the consultation can be seen on the following pages:

- FRC landing page - Consultations on measures to address local audit delays (frc.org.uk)
- DLUHC landing page - Addressing the local audit backlog in England: Consultation - GOV.UK (www.gov.uk)
- NAO landing page - Code of Audit Practice Consultation - National Audit Office (NAO)

Our response to the consultation

Grant Thornton responded to the consultation on 5 March 2024. In summary, we recognise the need for change, and support the proposals for the introduction of a backstop date of 30 September 2024. The proposals are necessarily complex and involved. We believe that all stakeholders would benefit from guidance from system leaders in respect of:

- the appropriate form of reporting for a backstopped opinion
- the level of audit work required to support a disclaimer of opinion
- how to rebuild assurance in terms of opening balances when previous years have been disclaimed.

We believe that both auditor and local authority efforts will be best served by focusing on rebuilding assurance from 2023/24 onwards. This means looking forwards as far as possible, and not spending 2023/24 undertaking audit work which was not carried out in previous years. We look for guidance from systems leaders to this effect.

Preparing for the backstop

For any outstanding years up to 2022/23, local authorities should:

- Prepare, adopt and publish financial statements in line with Code and Statutory requirements (Accounts and Audit Regs 2015 – 'true and fair')
- Support statements with a proper set of working papers and audit trail
- Work with the auditor to support the completion of outstanding audit work (where possible) and for the completion of Value for Money Work.

For 2023/24, local authorities should:

- Agree a timetable and working paper requirements with the auditor
- Put project planning and key milestones in place
- Consider the implications of CIPFA consultation (property valuation and pensions)
- Ensure the Corporate Governance Committee is properly briefed and prepared

As your auditor we will:

- Keep you updated on all national developments
- Set out clear expectations of the information we will require to conclude our work
- Agree a plan for the delivery of our work programme with a commitment to key milestones

Next steps

We await the government's response to the consultation. We will discuss next steps including any implications for your audit once we have further information.

Grant Thornton

grantthornton.co.uk

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