



CORPORATE GOVERNANCE COMMITTEE – 6 DECEMBER 2024

EXTERNAL AUDIT OF THE 2023/24 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 external auditor's interim Auditor's Annual Report for 2023/24, a progress update on the external audit of the Council's 2023/24 financial statements, and the interim Audit Findings Report of the Leicestershire County Council Pension Fund accounts.

Background

2. Grant Thornton UK LLP, the County Council's external auditor, is responsible for performing the audit of the Council's 2023/24 financial statements and reporting their opinion to those charged with governance. The draft 2023/24 financial statements can be viewed on the Council's website via the following link:

<https://www.leicestershire.gov.uk/about-the-council/council-spending/payments-and-accounts/statement-of-accounts>

3. Copies of the following reports are attached as Appendices to this report:
 - Interim Auditor's Annual Report – covers the Council's arrangements for value for money (VfM) - Appendix A.
 - Leicestershire County Council, Audit Progress Report 2023/24 – Appendix B.
 - Leicestershire County Council Pension Fund, Interim Audit Findings Report - Appendix C.
 - Letter of representation for the Pension Fund – Appendix D
4. Representatives from Grant Thornton UK LLP will attend the Committee meeting to communicate any significant findings and answer any questions.
5. The external audit of the Council's accounts is in progress and is due to be completed in January 2025 in line with the Audit Plan reported to the committee in May 2024. In January 2025 the committee will be asked to consider the auditor's final reports and approve the financial statements. The external auditor will then be in a position to sign off the accounts.

6. The level of audit testing continues to grow as a result of increased requirements on audit firms from their regulators and new auditing standards, and is reflected in the higher audit fees.

Key Findings of the External Auditor

Annual Auditors Report (AAR) - 2023/24

7. The AAR is a detailed review of the value for money (VfM) arrangements at the Council.
8. The AAR covers the following areas:
- Financial sustainability;
 - Governance;
 - Improving economy, efficiency and effectiveness;
 - Opinion on the financial statements
9. Overall, the auditor's report is positive. They have concluded that the Council has a good track record of sound financial management, has relatively strong arrangements in place to manage the financial resilience risks and has a documented governance framework to identify and manage risks. No significant weaknesses have been reported. Eight improvement recommendations have been made.

Financial Sustainability

10. This section covers the financial outturn position for 2023/24, financial planning as part of the Medium Term Financial Strategy (MTFS) for the four years 2024-28, the delivery of MTFS savings and the identification and management of risks to the financial resilience of the Council. The review noted:
- that the Council achieved a balanced outturn in 2023/24;
 - it has plans to close the significant financial pressures in later years of the MTFS, and the £41m deficit on the High Needs Block of the Dedicated Schools Grant at the end of 2023/24; and
 - the Council's plans to manage these.
11. The report also noted the structured approach to the identification of new savings and regular progress monitoring of the delivery of planned savings. It further adds that the Council's financial plans support the delivery of services, they are consistent with other Council plans and that risks to financial resilience are managed - for example: uncertainty over funding from central government, the impact of inflation, the national living wage, pay awards and increasing demand for service pressures.
12. Within this section of the report two improvement recommendations were made as summarised below.
13. Improvement recommendation 1: The Council should ensure that its financial governance framework remains robust in the face of ongoing pressures in the revenue budget.

Management response:

The position continues to be monitored closely through the four-year MTFs budget that is refreshed each year, regular budget monitoring, the identification of new savings and other measures being taken to control future expenditure and maximise income. Further savings options continue to be identified alongside the implementation of financial controls to ensure limited resources are focussed on delivering essential services. External resources will be used where required to provide additional capacity or expertise.

14. Improvement recommendation 2: The Council should continue to work to identify savings so that the use of reserves to balance the revenue budget is minimised. When savings opportunities are identified, these should be converted to realisable savings as quickly as possible.

Management response:

Whilst the implications of the Government's Autumn Budget are yet to be fully understood it is anticipated that the financial gaps for 2025/26 will have improved since the Auditor's report was written. Work is ongoing to refine funding estimates and new savings as part of the draft 2025-28 MTFs, including awaiting details of the additional local government funding announced in the Autumn Budget statement. The Council is targeting to set a balanced budget for 2025/26 without the use of reserves.

15. Improvement recommendation 3: To reduce the annual deficit on the High Needs Block of the Dedicated Schools Grant (DSG) and protect the Council's reserves, the Council should continue to work to identify opportunities to reduce the increasing demand for SEND as well as reduce the costs of SEND provision.

Management response:

The number of Education Health and Care Plans (EHCP) in Leicestershire continues to rise, in line with national trends. The Transforming SEND and Inclusion (TSIL) Programme identifies actions/improvements that will deliver benefits of £27.7m across the MTFs through both reduced costs and increasing local authority SEN provision.

Governance

16. This section covers the arrangements around risk management, budget setting and budget monitoring, informed decision making, and that appropriate governance standards are maintained. The report summarises that the Council has arrangements in place to identify and manage risks, the Council has a well-established annual budgeting process and has effective processes and systems in place to ensure budgetary control. It adds that arrangements are in place to ensure that appropriate and properly informed decisions are made, and that arrangements are in place to monitor standards, including legal, regulatory and officer and member conduct.
17. Three improvement recommendations were made in this area as summarised below.
18. Improvement recommendation 4: to improve and strengthen the arrangements in place for providing Internal Audit, the Council must ensure; the Chief Internal Auditor provides for the Corporate Governance Committee approval a three-year Internal

Audit Strategy and Annual Internal Audit Plan documenting its Internal Audit Charter, reporting to the Corporate Governance Committee provides clarity on progress against the plan, slippage is appropriately managed and that there is year-end reporting of Fraud activity.

Management response:

- The Council will provide the Corporate Governance Committee with: -
 - a three-year Internal Audit Strategy: this is an explicit requirement for the implementation of the Global Internal Audit Standards (GIAS) from 1 April 2025. The Strategy will need to be presented to the March 2025 Corporate Governance Committee.
 - Annual Internal Audit plan: an audit needs assessment / planning model is in place and will continue to be developed. A revision for 2025-26 plans will take place in January for a plan to be presented to the March Corporate Governance Committee meeting.
 - Internal Audit Charter: an Internal Audit Charter exists and was last updated in January 2024, but will need to be revised for the implementation of GIAS and presented to the Corporate Governance Committee in March 2025.
- The revised methodology continues to be developed and the first real detail on plan slippage is not likely to be reported until the January 2025 Corporate Governance Committee, but will be a routine thereafter.
- Slippage will be appropriately to enable timely opinion and assurance on risk exposure.
- The Corporate Governance Committee to approve Fraud report at year end: This has been planned for some time. The inaugural annual report will be scheduled for the June 2025 Committee.

19. Improvement recommendation 5: to enhance decision making arrangements the Council should; document on committee meeting agendas what action should be taken by the Cabinet, i.e. whether the paper requires a key decision to be made or is being presented for information and noting, include risk and legal implications as a standard template item on overview reports and align reports to the Strategic plan.

Management response: Agendas and reports for Cabinet meetings will be amended to clarify which agenda items are key decisions. The report template for Cabinet reports, available on the Intranet, includes legal implications as part of the 'resources implications' section in Part A of the report, and recommends that report authors address risk assessment in the 'background' section in Part B of the report. Report authors are also asked, in the 'policy framework and previous decisions' section in Part A of the report, to set out how the proposals align with and support delivery of the five outcomes in the Council's Strategic Plan.

20. Improvement recommendation 6: As the accountable body for the East Midlands Freeport the Council must take a lead in ensuring that the formal governance documents required to support the Freeport are signed and agreed by all parties.

Management response: There has been a delay in agreeing the governance documents because of issues relating to the application of the Subsidy control rules and addressing the complex issues affecting the members which have been subject to ongoing negotiation. These issues have now been resolved and the members

have agreed the governance documents in principle, and it is expected that these will be signed off by the end of the year.

Improving Economy, Efficiency and Effectiveness

21. This section covers performance measurement and commissioning and procurement.
22. The report noted; the Council has arrangements in place to monitor and report on performance of the Council, reports performance of its partnership working arrangements, and has contract management and monitoring in place.
23. Two improvement recommendations have been made in this section as summarised below.
24. Improvement recommendation 7: The Council needs to continue to progress the TSIL programme to ensure a sustained trajectory of improvement in the percentage of new EHCP's issued within 20 weeks to meet statutory deadlines.

Management response:

The delay in assessments is due to the backlog of advice as a result in the availability of educational psychologists. Through the development of a revised way of working the Children and Family Services department is on track to clear the backlog of advice and therefore assessments by the end of March 2025, therefore improving the timeliness of EHCPs.

25. Improvement recommendation 8: the Council should continue the work it is undertaking to reduce the number of contract exceptions and extensions, with quarterly compliance reports provided to the Corporate Governance Committee.

Management response:

Governance improvements: All contract exceptions will be considered by a Corporate Procurement Board for approval before being actioned. This allows a full review and scrutiny of the request before it is granted. The Contract Procedure Rules are being re-written for the Procurement Act and will include the requirement for all Exceptions above threshold to identify lessons learnt, mitigations and an action plan completed which may require further clarification in the form of a panel review by the Director of Corporate Resources and Director of Law and Governance.

Process improvements: A target operating model review is being finalised for sign off with a proposed structure across the Council to improve processes and compliance with the public Contract Regulations and the Procurement Act.

Opinion on the Financial Statements

26. The external audit of the financial statements is currently in progress and is planned to be completed in January 2025 as per the external audit plan. An update on progress is provided in the following sections of this report.

Leicestershire County Council - Audit Progress Report 2023/24

27. The draft accounts were published at the end of June 2024 as planned.

28. The external audit of the financial statements is in progress and no material issues have been reported to date. The auditor is aiming to complete their fieldwork and substantive testing by the end of December, to enable the Audit Findings Report to be reported to the next Corporate Governance Committee at the end of January 2025.
29. Audit progress to date includes:
- IT General Controls – almost complete
 - Journals testing – in progress
 - Valuation of Land and Buildings – in progress, reviewing the calculations and evidence for the samples.
 - Pension Fund valuation – in progress, no issues to report, waiting on the conclusion of the LCC LGPS Pension Fund audit – which has recently completed.
 - Cut off testing – largely complete, no issues to date
 - Trade and payables sample – in progress
 - Expenditure sample – in progress
 - Income and receivables - largely complete, no issues to report
 - Other Grants – in progress
 - Investments sample – in progress
 - Pension Fund surplus (IFRIC 14) assessment - largely complete, no issues to report

Sector Update

30. This section of the auditor's report provides an update on the Government's plan to introduce a series of statutory backstops to address the delays in audits of local authority accounts. The legislation was passed in September 2024 and introduces a backstop date for the 2023/24 accounts of the 28 February 2025. The backstop date for the 2024/25 accounts remains at the end of February (2026), but will gradually come forward to the end of November for the 2026/27 accounts.

Leicestershire County Council Pension Fund, Interim Audit Findings Report 2023/24

31. The external audit of the Pension Fund is substantially complete and the auditor anticipates issuing an unmodified opinion. Once the audit of the County Council's financial statements (as the Administering Authority) has been completed the auditor will be able to issue their final audit opinion.
32. No material adjustments were required to the financial statements.
33. Two immaterial adjustments were identified that do not require updating in the accounts. The items were:
- The valuation of hard to value pooled investments, £4.2m understated. The actual year end valuations for some investments are not known for many months until after year end. Estimates therefore have to be made to meet the deadlines for the preparation of the draft accounts.

- An over accrual of interest income, £4m overstatement. There was a miscalculation in the interest income accrual for the year, overstating the cash balance held on the balance sheet.

The net impact of these unadjusted items on the Fund Account was an understatement of £0.2m. The materiality level for the Fund Account is £25m.

34. The Audit reported that the key judgements and estimates made in respect of the valuation levels of pension fund investments were appropriate and that the IT controls relevant to the sample in Oracle are effective.
35. There were two improvement areas reported and two items raised from 2022/23.

New

- Supporting documentation for journals. The Council has been working with Colliers Global to agree additional monthly information. As a result, the Council is now undertaking a full monthly reconciliation of the cash float balance, including journal postings and clearance of suspense balances, with full documentation.
- Valuation of level 3 investments – audited financial statements. The Council will continue to liaise with investment managers to acquire copies of audited financial statements, Type 2 SOC reports, and/or other documentation as appropriate to support assurance in the valuations and controls of their fund(s).

Re-raised from 2022/23

- Journals below £20,000 auto approved. Access in the system is restricted to the central finance team only and overall numbers of journals at this level are very low. However, the Council will continue to review options, including Internal Audit continuing to review a sample of journals as part of their annual assurance work.
 - Investment manager internal control reports and bridging letters – provide assurance on controls in place. The Council will continue to liaise with investment managers to obtain assurances over their controls, including Type 2 SOC reports and bridging letters wherever possible. The Council understands that LGPS Central expects to produce a Type 2 report for 2024/25 and in future years.
36. The proposed audit fees for the pension fund have increased by £7,840 to £104,403 to that reported in the Audit plan in May to the Committee. This is due to additional audit work required by International Standards on Auditing (ISA) 315 – identifying and assessing the risks of material misstatement, and ISA 240 – the auditor’s responsibilities relating to fraud in an audit of the financial statements.
 37. A copy of the letter of representation for the Pension Fund is attached as Appendix D.

Recommendations

38. The Committee is asked to note the Auditor’s Annual Report and consider the issues raised in the auditor’s Audit Findings Reports and approve the Pension Fund Letter of Representation.

Background papers

39. Corporate Governance Committee 20 May 2024 – LCC and LPF External Audit Plans 2023-24

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=7723&Ver=4>

Circulation under the Local Issues Alert Procedure

40. None.

Equality and Human Rights Implications

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

Appendices

Appendix A – Interim Auditor’s Annual Report 2023/24

Appendix B – Leicestershire County Council Audit Progress Report 2023/24

Appendix C – Interim Audit Findings Report for Leicestershire County Council Pension Fund 2023/24

Appendix D - Leicestershire County Council Pension Fund, Letter of Representation 2023/24

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