



CORPORATE GOVERNANCE COMMITTEE – 24 JANUARY 2025

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

EXTERNAL AUDIT OF THE 2023/24 STATEMENT OF ACCOUNTS, ANNUAL GOVERNANCE STATEMENT AND PENSION FUND ACCOUNTS

Purpose of the Report

1. The purpose of this report is to:
 - Present the 2023/24 financial statements and letters of representation for approval,
 - Inform the Committee of the main areas of the financial statements, and
 - Report the key findings from the external audit of the accounts.

Background

2. The financial statements comprise the accounts for the County Council, the Annual Governance Statement and the accounts for the Pension Fund. The draft 2023/24 accounts were published at the end of June 2024 and were then subject to external audit.
3. Grant Thornton UK LLP, the County Council's external auditor, is required to communicate the results of the audit to those charged with governance prior to certifying the financial statements.
4. The Committee received an interim Audit Findings Report (AFR) for Leicestershire County Council and the Pension Fund at its last meeting on 6 December 2024. The external auditor reported that the pension fund audit had been completed with the final opinion to be issued alongside the County Council's accounts opinion, as the Fund's administering body.
5. At the same meeting the Committee also received a copy of the Auditor's Annual Report – covering the Council's 2023/24 arrangements for value for money.
6. The external audit is almost complete and the auditor intends to be able to report their final opinion to the Committee at this meeting. The auditor anticipates issuing an unqualified audit opinion on the County Council and the Pension Fund accounts. The remaining items are:
 - Final responses from the external valuer on the valuation of land and buildings
 - Auditor review of level 3 investment disclosures

- Auditor review of evidence of; asset additions that do not (materially) increase valuations and final queries on creditors.
 - Receipt and review of remaining bank/ investment confirmations.
 - Auditor review of the final set of financial statements
 - Final quality reviews by the audit manager and key audit partner.
7. Copies of the following reports are attached as appendices:
 - Financial Statements 2023/24 – updated for audit changes (Appendix A)
 - Audit Finding Report 2023/24 – Appendix B
 - Letters of representation for the County Council and Pension Fund (Appendix C and D).
 8. Helen Lillington, 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.
 9. The Accounts and Audit Regulations 2015 required local authorities to publish their audited accounts by the end of July each year. For some time this date has not been achievable due to auditor capacity and increasing complexity of the accounts. To address part of the delays, the Government in September 2024 introduced a series of backstop dates by when audited accounts must be published. For the 2023/24 accounts the deadline has been set as the 28 February 2025. The 'backstop' dates then gradually move forward in subsequent years to the end of November for the 2026/27 and 2027/28 accounts.
 10. The level of audit testing has continued to increase 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.
 11. In November and December 2024 the Constitution Committee and the Corporate Governance Committee agreed amendments to the terms of reference for both committees. This included that, as is the case for most other authorities, the Statement of Accounts will be presented to the Corporate Governance Committee (not the Constitution Committee) for approval in future.

Statement of Accounts

12. The main areas of the financial statements are set out below.

Narrative Statement

13. The purpose of the Narrative Statement is to offer interested parties an effective guide to the most significant matters reported in the accounts. It includes a summary of the economy, efficiency and effectiveness, and the financial and non-financial performance of the Authority, and an explanation of the contents of the accounts.

Movement in Reserves Statement (MIRS)

14. This statement shows the movement in year on the different reserves held by the County Council, analysed into 'usable reserves', i.e. those that can be applied to fund expenditure and 'unusable reserves' which cannot be used to fund services.

15. Unusable reserves include reserves that hold unrealised gains and losses as well as adjustments for the differences between amounts charged in accordance with accounting standards and amounts charged for statutory purposes. An example is the short term accumulating compensated absences adjustment account. This account holds the estimated value of untaken annual leave as at the balance sheet date. The charge is required to be recognised by accounting standards, but statutory mitigation then requires it to be reversed out via an unusable adjustment account to avoid it being a charge to the General Fund. Other examples include capital charges for depreciation, gains and losses on investments, and a time limited mitigation for the deficit on the Dedicated Schools Grant (DSG).
16. Overall, usable reserves which comprise the general fund and earmarked revenue and capital reserves, total £317m as at 31 March 2024:

Usable Reserves	31/3/23	31/3/24
	£m	£m
General Fund – Delegated Funding for Schools	9.1	5.0
General Fund – Uncommitted Balance	19.0	21.0
Subtotal - General Fund	28.1	26.0
Earmarked Revenue Reserves	222.3	260.9
Earmarked Capital Reserves	5.1	29.8
Total Usable Reserves	255.5	316.7

General Fund

17. The General Fund includes delegated funding for schools and the uncommitted balance of the Council which is held for unforeseen risks that require short term funding. The balance of £21m represents 3.7% of the net 2024/25 budget (excluding schools' delegated budgets). The target range is between 4% and 7% of net budget, excluding schools. The new MTFS for 2025-29 includes plans to increase the uncommitted fund to £25m by the end of 2028/29 to reflect increasing uncertainty and risks over the medium term.

Earmarked Revenue and Capital Reserves

18. Details of the earmarked revenue reserves can be found in Note 12 to the accounts. The main earmarked reserves held are:
- Capital Financing £115m. This reserve holds MTFS revenue contributions required to fund the approved capital programme in future years. The reserve is fully committed to fund the 2025-29 MTFS capital programme and will be used before the planned £83m unsupported borrowing, included in the MTFS 25-29, is required. Holding this fund is an essential part of the Council's approach to avoiding incurring additional debt where possible.
 - Budget Equalisation £67m. This reserve is held to manage variations in funding across financial years including MTFS funding gaps. It also includes the increasing pressures on the High Needs element of the DSG which was in deficit by £41m as at 31 March 2024 and is forecast to increase to £120m by the end of 2028/29. The temporary statutory override on the DSG is currently to the end of

March 2026.

- Insurance £15m. Funds held to meet future claims, or parts of claims, that are not covered by insurance policies. This could be due to policy limits and deductibles or claims relating to periods when the insurer has failed, such as Municipal Mutual Insurance or The Independent Insurance Company.
19. Capital receipts and capital grants unapplied total £29.8m. The balance held represents funds received, but not applied as at year end. The amounts vary as and when capital projects complete.
 20. The required level of earmarked reserves is kept under review during the year. Formal assessments are undertaken during the autumn, in February as part of the Medium Term Financial Strategy (MTFS) and at year end.

Comprehensive Income and Expenditure Statement (CIES)

21. The CIES shows the accounting cost of providing services in accordance with accounting standards rather than the amount funded from taxation and income. The Council raises taxation to cover expenditure in accordance with statutory regulations which can be different from the accounting cost.
22. The headings used in the CIES align with the main reporting areas of the Council. However, the CIES cannot be directly compared to the outturn position reported to the Cabinet because the financial accounts comply with various reporting standards whereas the management accounts are compiled on a slightly different basis. The key differences relate to the way depreciation, impairment and movements to and from reserves are reported.
23. The CIES shows a net surplus on the provision of services for 2023/24 of £113m compared with a net deficit of £55m the year before. The change is a combination of factors including a reduction in the number of schools converting to academies during 2023/24 (less assets being written out), changes in the valuation of assets, increased returns on treasury management and pension fund investments (higher base rates) and council tax income.

Balance Sheet

24. The Balance Sheet shows the value of the assets and liabilities of the Council as at the balance sheet date. As at 31 March 2024 net assets were £1.2bn (prior year, £989m). The change reflects capital additions in year through the capital programme, revaluation gains and losses, and reductions for depreciation.
25. The net deficit on the pension fund totals £33m (prior year net deficit £35m). The amount included in the accounts is assessed under International Accounting Standard 19 (IAS19) adjusted for a restriction on any net surplus. The reported position is after a technical accounting assessment required (per IFRIC14) on the LGPS net position – which was a net surplus of £162m. IFRIC 14 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 due to the future minimum funding requirements of the LGPS. This assessment resulted in the £162m

being removed leaving a net liability of £33m relating to unfunded LGPS and Teachers pensions.

26. The pension fund balance represents all pension entitlements that have been earned to date, but which are not yet in payment. Where there is a net deficit, statutory arrangements will result in the deficit being made good through increased contributions by the employer over the remaining working life of employees as assessed by the pension fund scheme's actuary. However, it is the triennial fund valuation, most recently as at 31 March 2022, that actually informs the levels of future contributions required. The results of the latest valuation reported that the fund had increased to a 105% funded position (89% previously), which was a significant improvement, largely driven by investment returns over the last 3 years.
27. Investments held by the Council include cash and cash equivalents (highly liquid investments that mature within 3 months or less from the date of acquisition) and short and long term investments. They total £506m as at 31 March 2024, compared with £521m at the same time last year.
28. At year end accounting Provisions reduced by £2m to £6.4m overall. Provisions are held to fund liabilities of uncertain timing or amount and are shown in greater detail in Note 27 to the accounts. The main provisions held are for Insurance, representing the estimated value of outstanding unsettled claims as at 31 March 2024, and Business Rates (the Council's 'notional' share of district councils' business rates appeals). The share of business rates appeals is notional as it is required to be reversed out via the Collection Fund Adjustment Account (shown at the bottom of the Balance Sheet) in order that it is not a charge to the General Fund.
29. The capital financing requirement (CFR) is shown in Note 39 to the accounts and totals £202m at the year end. The CFR is a measure of capital expenditure incurred historically that has yet to be financed. Actual debt as at the balance sheet was £220m. The difference between the CFR and actual debt is a temporary over-borrowed position of £18m which has subsequently become an under-borrowed position of £20m during 2024/25 due to favourable opportunities taken to repay external debt early. The position is refreshed annually as part of the MTFs.

Annual Governance Statement

30. The financial statements are accompanied by the Annual Governance Statement (AGS) signed by the Chief Executive and Leader of the County Council. The statement sets out the purpose of the system of internal control, how it operates in the Council and how its effectiveness has been reviewed. The AGS included in the financial statements has been updated for the latest position. The AGS is due to be approved by the Constitution Committee at its meeting on 21 January 2025.

Pension Fund Accounts

31. The financial statements also include the Pension Fund Accounts for the Local Government Pension Scheme (LGPS) administered by the County Council.
32. The latest available triennial actuarial valuation of the pension fund showed that as at 31 March 2022 the fund's assets covered approximately 105% of the liabilities accrued up to that date. This funding level was a significant increase on the 89%

position reported in the 2019 valuation. Although the funding level of individual employers will vary the positive position indicated that the contribution rates for the majority of employing bodies is expected to have peaked.

33. There were 189 active employers within the fund and over 107,000 members in the pension scheme as at 31 March 2024.
34. The overall net assets of the fund increased during the year from £5.8bn to £6.4bn. The increase was due to an increase in net returns on investments of £600m. Details of the investments held are shown in Note 12 to the Pension Fund Accounts.

Key Findings of the External Auditor – 2023/24 Accounts

Audit Findings Report – Leicestershire County Council

35. The Committee received an interim audit progress report in December 2024. Good progress has continued to be made and the auditor is planning to complete and sign the audit, as planned, at this Committee meeting. The auditor anticipates issuing an unqualified opinion. A copy of the audit findings report is attached as Appendix B. The auditor will provide a verbal update at the meeting.
36. It should be noted that as a result of increasing regulation on audit firms the external audit for 2023/24 has continued to increase significantly in its coverage and expectations. This is also reflected in the increase in fees in recent years and those advised for the new audit contract from 2023/24.
37. During the course of the audit two non-material adjustments were identified which have been corrected in the accounts. The materiality level for the financial statements is £15.2m. The corrected items were:
 - Short and Long term borrowings, £4.8m. Correction between short term and long term to reflect a loan due to be repaid within 12 months of the balance sheet date.
 - Grants received in advance, £2.5m. Correction between long term and short term grants received in advance.

The net impact on the balance sheet of these corrections is nil.

38. Two other minor corrections were also identified that were not adjusted for due to their low value. £0.8m between short term investments and debtors, and £1.1m between the pension fund liability and the pension fund reserve. The net impact on the balance sheet of these is nil.
39. The auditor has reported that the key judgements and estimates used in respect of the valuation of land and buildings, the assumptions used by the Actuary and the Councils minimum revenue provision policy are acceptable and appropriate. The auditor has also reviewed the IT environment (Oracle Fusion) and has concluded that the IT controls relevant to audit of the financial statements are effective.
40. There were two improvement areas reported and three residual items re-raised from 2022/23. All other prior year recommendations have been implemented.

41. The new improvement areas were:
- Property, Plant and Equipment – ensure the recorded valuation basis in the fixed asset register matches the basis provided by the external valuer.
 - New IFRS16 lease standard – that the Council is prepared for the implementation in 2024/25.
- Both recommendations have been accepted and are currently being worked on.
42. The following areas were re-raised from 2022/23:
- Processing of capital accounting entries – including the current valuation date used of 1 October. This is under review to consider moving to the 1 January for the 2025/26 valuation exercise.
 - Income and expenditure listings – review of transaction volumes. This will be reviewed post the audit to see what further improvements can be made.
 - Journal approval less than £20,000. Access to enter and approve a journal is restricted in Oracle Fusion to the central finance team only and overall numbers of journals at this level are very low. Consideration has to be given to the level of resources required compared with the risk, and that there are other controls, such as budget monitoring that mitigate the risks. Internal Audit have also reviewed the process and have reported substantial assurance.
43. The final audit fee for the Council has increased slightly to £273,146 (from the proposed fee of £269,956) due to confirmation of the final set fee for additional audit work required by International Standards on Auditing (ISA) 315 – identifying and assessing the risks of material misstatement.
44. A copy of the letter of representation for the Council is attached as Appendix C.

Audit Findings Report – Leicestershire County Council Pension Fund

45. The auditor has completed their work and reported their findings to the Committee in December 2024. The auditor reported that they anticipate issuing an unqualified opinion once the audit of the County Council's financial statements (as the Administering Authority) has been completed.
46. No material adjustments were required to the accounts. Two immaterial adjustments were identified, which have not been adjusted for – these had a net impact of the pension Fund Account of an understatement of £0.2m. The materiality level for the Fund Account is £25m.
47. The auditor 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.
48. A copy of the letter of representation for the Pension Fund is attached as Appendix D.

Summary

49. Given the length and complexity of the accounts, the very minimal number of adjustments required is a significant achievement.

Equality Implications

50. There are no equality implications arising from the report.

Human Rights Implications

51. There are no human rights implications arising from the report.

Recommendation

52. The Committee is recommended to approve the financial statements and letters of representation for 2023/24.

Background Papers

Provisional revenue and capital outturn, Cabinet – 24 May 2024

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=7506&Ver=4>

External Audit Plan and Risk Assessment 2023/24, , Corporate Governance Committee – 20 May 2024

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

External Audit of the 2023/24 Statement of Accounts, Annual Governance Statement and Pension Fund Accounts , Corporate Governance Committee – 6 December 2024

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=7724&Ver=4>

Terms of Reference, Corporate Governance Committee – 6 December 2024

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=7724&Ver=4>

Circulation under the Local Issues Alert Procedure

None.

Appendices

Appendix A - Financial Statements 2023/24

Appendix B - External Auditors Report - County Council

Appendix C - Letter of Representation – County Council

Appendix D - Letter of Representation – Pension Fund

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