

Leicester City Council Audit Progress Report and Sector Update

Year ending 31 March 2022

28 September 2022



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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 Authority 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.

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Introduction



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This paper provides the Audit and Risk Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit and Risk Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either Grant or Nic.

Progress at September 2022

Financial Statements Audit

We undertook our initial planning for the 2021/22 audit to March 2022 and began work on your draft financial statements in July.

In July we issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2021/22 financial statements.

We will report our work in the Audit Findings Report. We plan to be in a position to give our opinion on the Statement of Accounts by 30 November 2022* subject to all queries raised being satisfactorily resolved.

A caveat to this is the on-going discussions within the sector in respect of the accounting for infrastructure assets as outlined on page 8. We are anticipating a statutory override to be introduced but our current understanding is that this will be delayed until late November/early December at the earliest, which therefore may impact on the efficacy of the 30 November deadline.

Note

* The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts. This has been enacted by The Accounts and Audit (Amendment) Regulations 2022 (SI 2022 No. 708) that came into force on 22 July 2022. This confirms the deadline for publishing audited local authority accounts for 2021/22 is extended to 30 November 2022 and thereafter changed to 30 September for years up to 2027/28.

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements.

We will therefore be reporting no later than February 2023. There is a letter appended to this report, for the attention of the Chair explaining the reason for the delay.

Progress at September 2022 (cont.)

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2021/22 is the fourth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in the period 2018/19 to 2021/22 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit and Risk Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2021/22 Deliverables	Planned Date	Status
<p>Audit Progress Report</p> <p>Report on certification work done in relation to the 2020-21 financial year.</p>	March 2022	Completed
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit and Risk Committee setting out our proposed approach in order to give an opinion on the Authority's 2021/22 financial statements and to report on the Authority's value for money arrangements in the Auditor's Annual Report, to include our initial value for money risk assessment.</p>	July 2022	Completed
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the November Audit and Risk Committee.</p>	November 2022	Not yet due
<p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p>	November 2022	Not yet due
<p>Auditor's Annual Report</p> <p>This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.</p>	February 2023	Not yet due
2021/22 Audit-related Deliverables	Planned Date	Status
<p>Teachers Pensions Scheme – certification</p> <p>This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform.</p>	30 Nov 2022	Not yet due
<p>Housing Benefit Subsidy – certification</p> <p>This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.</p>	31 Jan 2023	Not yet due
<p>Pooling of housing capital receipts - certification</p> <p>This is the report we submit to the Department for Levelling Up, Housing and Communities (“DLUHC”). based upon the mandated agreed upon procedures we are required to perform.</p>	TBC	Not yet due

Results of Audit Work to date

The findings of our work to date, and the impact of those findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Internal audit	We have reviewed internal audit's work on the Authority's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements or impact on our audit approach.
Journal entry controls	<p>We have reviewed the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy.</p> <p>As in the prior year we noted that there is a lack of established approval process for journals; instead placing reliance on the Council's day-to-day activities to identify any journals that were posted incorrectly.</p>	<p>Since November 2019 the Council has put in arrangements which mitigate this deficiency to a certain extent. Each individual journal is not counter signed but since that time all journals posted in the month are downloaded and split by the department which posted them. The principal accountant of the relevant department who posted them then picks a sample to review, making sure they should have been posted and are correct. This review is signed and dated by the principal accountant and returned to the corporate finance team.</p> <p>In our view, the lack of authorisation as at the point of posting is a control deficiency that heightens the risk in the control environment, and therefore our testing was enhanced to take this into account, ie our sample size for our substantive testing of journals has been increased.</p> <p>We understand that the Council and TCWG are aware of the deficiency and continue to be willing to tolerate the risk.</p>

	Work performed	Conclusions and recommendations
Infrastructure assets	<p>Infrastructure assets includes roads, highways, streetlighting and coastal assets. In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address:</p> <ul style="list-style-type: none"> • The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets. • The risk that the presentation of the PP&E note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced. <p>As reported in our audit plan we assessed that there is some risk of material misstatement that requires an audit response. We also reported that CIPFA were consulting on adaptations to the LG Code which we will factor into our response once the outcome is known.</p> <p>In order to be able to conclude whether there is a risk of material misstatement our response at this time is that we proposed the following:</p> <ul style="list-style-type: none"> • assess risks of material misstatement related to infrastructure assets • update our understanding of the process to explain the Council's current approach to capitalisation, derecognition and depreciation of infrastructure assets and how it complies with the Council's fixed asset register to confirm that the processes are being applied in practice • for a sample of assets or additions to infrastructure, we will enquire as to the basis of the asset life and conclude on whether this is reasonable and correctly factored into depreciation calculations 	<p>We have held discussions with the Chief Accountant and have requested evidence and documentation in support of the Council's approach. A meeting will also be held shortly with officers from the Council's highways team as part of additional intelligence gathering in this matter.</p> <p>Pending receipt of this additional information our conclusion is outstanding as to whether there is a risk of material misstatement.</p> <p>Additionally, discussions are underway with DLUCH (Department for Levelling Up, Housing and Communities) who are preparing to provide a statutory override in relation to this matter, but it is likely to still require the application of useful economic lives to be appropriate, and for there to be evidence and records supporting that that is the case.</p> <p>However, due to recent events it is likely that this statutory override will be delayed until late November/early December at the earliest, which therefore may impact on the efficacy of the 30 November deadline for publication of the Council's audited accounts.</p> <p>We will keep the Council's finance team abreast of updates as and when they become available.</p>

	Work performed	Conclusions and recommendations
<p>Review of information technology controls</p>	<p>Our information systems specialist performed a review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>To obtain an understanding of the information systems relevant to financial reporting, IT Audit specialists were deployed to complete a design and implementation review of IT general controls of the following applications:</p> <ul style="list-style-type: none"> • i-Trent (HR and payroll system) • Civica (Housing Benefits) • Unit-4 (General Ledger) • Active Directory (domain controller authenticating and authorising users and assigning and enforcing security policies, eg password control) 	<p>The following tasks were completed as part of this review:</p> <ul style="list-style-type: none"> • IT General Controls Testing: Design, implementation assessment over controls for security management; technology acquisition development and maintenance; and technology infrastructure. • Performed high level walkthroughs, inspected supporting documentation and analysis of configurable controls in the above areas. • Documented the test results and provided evidence of the findings to Leicester City Council's IT function's management for remediation actions where necessary. <p>One deficiency was identified which we deem appropriate to bring to the attention of the as those charged with governance, as it impacts directly on our audit approach. This is the same deficiency as reported to the Committee in respect of the 2020/21 financial year.</p> <p>Administrative access to i-Trent and Unit 4 had been granted to users which also gives them the ability to enter financial transactions.</p> <p>The combination of access to undertake financial transactions with the ability to administer end-user security is considered a segregation of duties conflict. It increases the risk of these elevated privileges being used to make unauthorised changes to the application, business processes or user accounts by over-riding internal system controls, which could lead to fraud and/or financial misstatement. Two recommendations were raised, (which are included within Appendix A of this report) but for the purposes of our audit testing, it is leading to additional work in relation to the users to whom the above findings apply.</p> <p>Our testing is being extended to ensure that we specifically assess any unusual activities, such as journals posted by the five identified users in the payroll team and five identified users in the finance team.</p> <p>We will report our conclusions in respect of this work in our Audit Findings Report but understand that the Council and TCWG are aware of the deficiency and continue to be willing to tolerate the risk.</p>

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Audit and Risk Committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

Response to local audit consultation – Department for Levelling Up, Housing and Communities (“DLUHC”)

The Department for Levelling Up, Housing and Communities (“DLUHC”) has published its response to the local audit consultation. This follows the “Redmond Review”, which reported in September 2020.

The response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

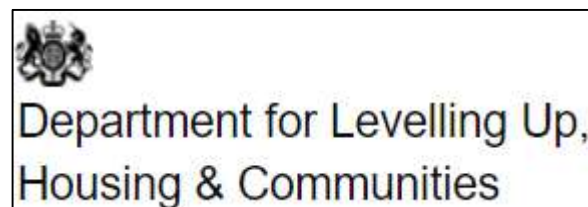
Ahead of ARGA’s establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022.

The consultation response also announces:

- Plans to make Audit and Risk Committees compulsory for all councils, with each Audit and Risk Committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.
- ARGA will take over statutory responsibility for preparing and issuing the Code of Audit Practice (from the National Audit Office).
- A post-implementation review of the new Value for Money arrangements. The Code is a key part of the local audit system, and it is important to ensure that it helps to facilitate effective local audit. To allow time for the new arrangements to bed in the response proposes this is completed within three years.

The full response can be found here:

[Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)



Levelling up White Paper – Department for Levelling Up, Housing and Communities (“DLUHC”)

On 2 February the Department for Levelling Up, Housing and Communities (“DLUHC”) published its Levelling Up White Paper.

The paper states “Levelling up requires a focused, long-term plan of action and a clear framework to identify and act upon the drivers of spatial disparity. Evidence from a range of disciplines tells us these drivers can be encapsulated in six “capitals”:

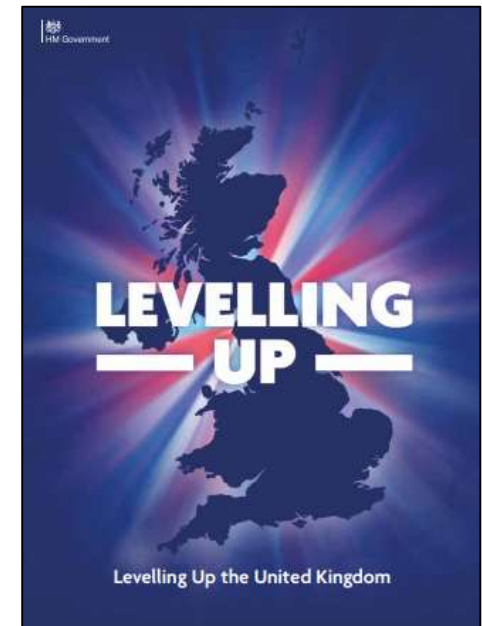
- Physical capital – infrastructure, machines and housing.
- Human capital – the skills, health and experience of the workforce.
- Intangible capital – innovation, ideas and patents.
- Financial capital – resources supporting the financing of companies.
- Social capital – the strength of communities, relationships and trust.
- Institutional capital – local leadership, capacity and capability.”

The paper also states “This new policy regime is based on five mutually reinforcing pillars.” These are set out and explained as:

- 1) The UK Government is setting clear and ambitious medium-term missions to provide consistency and clarity over levelling up policy objectives.
- 2) Central government decision-making will be fundamentally reoriented to align policies with the levelling up agenda and hardwire spatial considerations across Whitehall.

- 3) The UK Government will empower decision-makers in local areas by providing leaders and businesses with the tools they need.
- 4) The UK Government will transform its approach to data and evaluation to improve local decision-making.
- 5) The UK Government will create a new regime to oversee its levelling up missions, establishing a statutory duty to publish an annual report analysing progress and a new external Levelling Up Advisory Council.

[Levelling Up the United Kingdom - GOV.UK](https://www.gov.uk/levelling-up)
(www.gov.uk)



Grant Thornton – reaction to Levelling up White Paper

On 2 February the Department for Levelling Up, Housing and Communities (“DLUHC”) published its Levelling Up White Paper.

Commenting on the release of the government’s Levelling up White Paper plans, Phil Woolley, Head of Public Sector Consulting, Grant Thornton UK LLP, said:

“The publication of today’s White Paper plans is a welcome first step and it is reassuring to see the government recognise the need for systemic changes in order to deliver its central aim of Levelling up. The ‘12 missions’ can be seen as an attempt to consolidate existing elements of government activity behind a singular banner and now provides a clearer picture of the levelling up opportunity.

“Following a decade of successful regional devolution and mayors, the White Paper marks the next stage of the country’s devolution journey. With government now offering a clear framework of devolved powers and accountability, local leaders will need to embrace the opportunity and collaborate across the public and private sector to ensure they negotiate and then deliver the best deal for their communities. Grant Thornton’s Levelling Up Index shows that the economies of the 10 worst performing local authorities in England are on average over five times smaller than their best performing counterparts - highlighting the scale of the challenge ahead.

“To level up, these areas would need to grow their economies by £12billion, increase employment rates by 6 percentage points, create 1,700 new businesses a year and increase average weekly pay by £200. It is too early to determine whether the measures announced today will be sufficient, but it is a start. Success will ultimately depend on the ability and willingness of local and national government to translate these new frameworks into meaningful change in people’s lives.

“The Spending Review offers the next opportunity for government to show its commitment by realigning departmental objectives behind these new goals.”

Prudential Code and Treasury Management Code – CIPFA

On 20 December CIPFA published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code).

CIPFA commented “These two statutory and professional codes are important regulatory elements of the capital finance framework in which local authorities operate. Local authorities are required by regulation to ‘have regard to’ their provisions. These two codes have been published a principles-based consultation from February to April, which was followed by a second consultation on the detailed changes to the code from September to mid-November.

The updated Prudential Code includes some substantive changes. Most notably, the provisions in Code which present the approach to borrowing in advance of need in order to profit from additional sums borrowed have been strengthened. Additionally, the relevant parts of Code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for-yield as the primary purpose of the investment or represent an unnecessary risk to public funds.”

The updated Prudential Code removes the "advance of need" terminology and emphasises the legislative basis for borrowing, namely that a local authority can borrow and invest for any legislative function and/or for the prudent management of their financial affairs.

The examples listed in the Code of legitimate prudential borrowing are:

- Financing capital expenditure primarily related to the delivery of a local authority’s functions;
- Temporary management of cash flow within the context of a balanced budget;
- Securing affordability by removing exposure to future interest rate rises; or
- Refinancing current borrowing, including replacing internal borrowing, to manage risk or reflect changing cash flow circumstances.



The Value of Internal Audit – CIPFA

One of the key elements of good governance is an independent and objective internal audit service. Some organisations engage fully and reap significant benefits from the assurance, insight and expertise they bring whilst others pay lip-service to them and see their work as an administrative burden.

CIPFA's recent report, [Internal Audit: Untapped Potential](#), lifts the lid on internal audit in public services. For some chief financial officers and chief executives, this report confirms the value and contribution of internal audit teams with 87% of respondents recognising the contribution internal audit makes to their organisation. However, some leadership teams saw internal audit as providing a basic service at minimal cost.

Getting the most out of the function requires honest conversations and long-term planning. Maintaining appropriate skills and knowledge within the function is necessary to ensure high quality internal audit in public services are retained.

Culture and governance

The Audit and Risk Committee should monitor the delivery of internal audit and their output will be a key part of the annual work-plan. However, internal audit is not a substitute for risk management and should enhance the overall assurances received by management. Executives and Officers should engage with internal audit recommendations to ensure the organisation gains maximum value from reviews.

Capacity

Reducing internal audit days can lead to a lack of 'corporate grip' and not identifying issues at an early stage. This report raises concerns over the capacity of internal audit across the public sector. The profession needs to be valued and invested in to make it more attractive to new blood and for bodies to be able to attract the best candidates to their service.

Expectations

To maximise the impact of internal audit, a clear and aligned strategic audit plan and annual audit plan should be in place. This should be agreed with all stakeholders.

Future plans

Internal audit needs to adapt to the changing landscape, including risks such as climate change, digital and technological developments, cyber-security and ongoing financial and service pressures within their planning processes. For financial resilience and medium- and long-term financial strategies internal audit can provide vital independent assurance to decision makers to allow them to take on more risk and be more ambitious. Leadership teams need to be clear on what assurances they will require going forward.

For more information, [Rob Whiteman](#) share his views on this report.



Good practice in annual reporting – NAO

The National Audit Office (NAO) has published this guide which sets out good practice principles for annual reporting with examples from public sector organisations

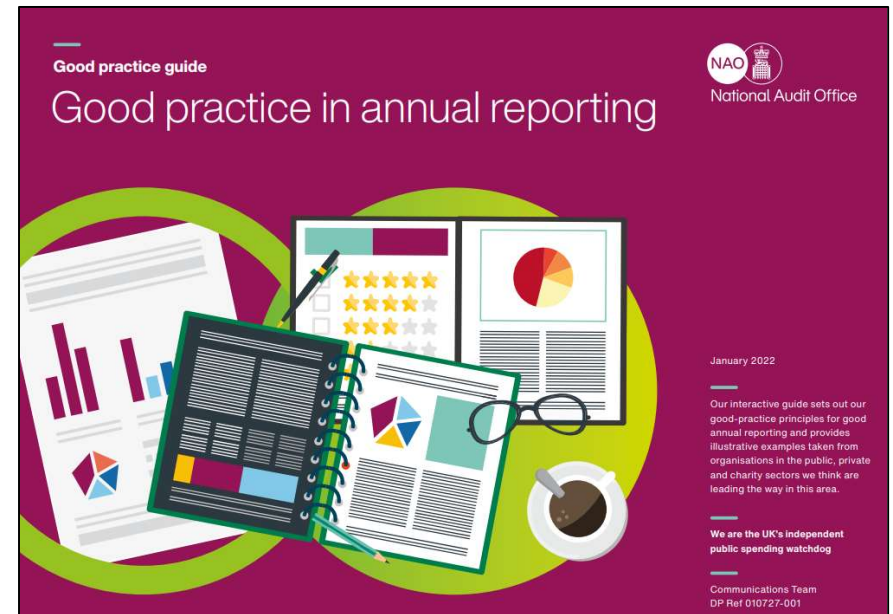
The NAO comment that the guide sets out “good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable.”

The NAO further comment “The best annual reports we have seen use these principles to tell the “story” of the organisation. It is important that stakeholders, including the public and Parliament, are able to hold an organisation to account. To do this effectively, stakeholders need to properly understand the organisation’s strategy, key risks that might get in the way of delivering this strategy and the effectiveness of their management, and the amount of taxpayers’ money that has been spent to deliver the outcomes the organisation seeks to achieve.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

Although the guide does not include any local authority examples, those included, and the underlying principles, are equally relevant to all public facing organisations.



The guide can be found here:

[Good practice in annual reporting - National Audit Office \[NAO\] Report](#)

Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit and Risk Committees in assessing their effectiveness.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm’s-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO’s effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis.”

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit and Risk Committees it is also relevant to local government.



The guide can be found here:

[Audit and Risk Assurance Committee effectiveness tool - National Audit Office \(NAO\) Report](#)

Guide for s on financial reporting and management during COVID-19 – NAO

The National Audit Office (NAO) has published this guide which aims to help members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak

The NAO comment “s are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The guide includes sections on:

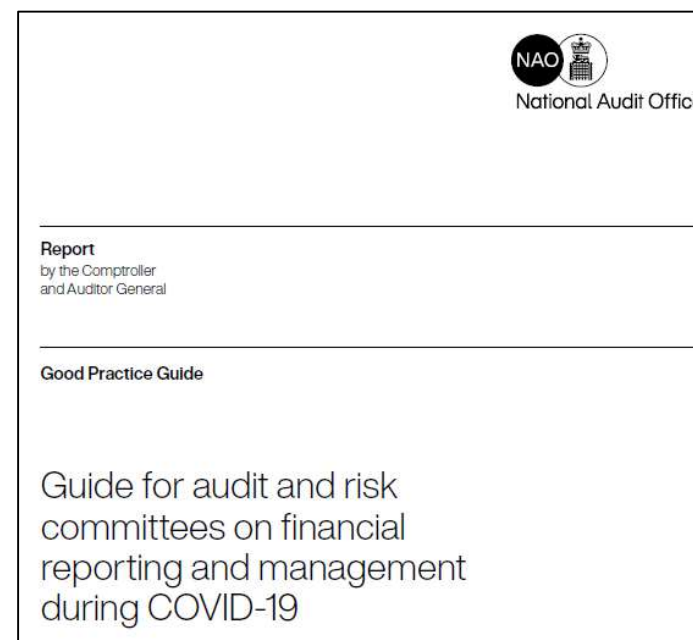
- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure

The guide can be found here:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

The guide includes a number of key questions covering areas such as:

- Property valuations
- Pension scheme valuations
- Completeness of liabilities
- Events after the reporting period
- Control environment
- Fraud and error



Appendix A

A. Follow up of prior year IT review recommendations

One recommendation was raised in the prior year as a result of a review undertaken by our IT audit team. This has been followed up below. Where the findings impact on our audit approach, we have set out the impact on page 9.

Assessment	Issue and risk identified in 2021/21 and recommendation raised	Follow up	Management response
●	<p>Segregation of duty conflicts within i-Trent and Unit 4</p> <p>Administrative access to i-Trent and Unit 4 had been granted to users who have financial responsibilities.</p> <p>The combination of financial responsibilities with the ability to administer end-user security is considered a segregation of duties conflict. It increases the risk of these elevated privileges being used to make unauthorised changes to the application, business processes or user accounts by over-riding internal system controls, which could lead to fraud and/or financial misstatement.</p> <p>It was recommended that:</p> <ol style="list-style-type: none"> 1. Management should consider reviewing access rights assigned to all system users to identify and remove conflicting access rights. 2. Management should adopt a risk-based approach to create and reassess the segregation of duty matrices on a periodic basis. This should consider whether the matrices continue to be appropriate or required updating to reflect changes within the business. 3. If incompatible business functions are granted to users due to organisational size constraints, management should ensure that there are review procedures in place to monitor activities (e.g. reviewing system reports of detailed transactions; selecting transactions for review of supporting documents; etc). 	<p>Administrative access to i Trent (via 'LCITC SYSTEM ADMIN' and Unit 4 (via 'AG SYSTEM' role) has been granted to users which also gives them the ability to enter financial transactions. The combination of access to undertake financial transactions with the ability to administer end user security is considered a segregation of duties conflict.</p> <p>We noted that the following individuals had such elevated permissions</p> <p><u>i-Trent</u></p> <ul style="list-style-type: none"> • 1 user as 'Corporate Payments Manager' from the payroll department • 3 users as 'Operational Pensions and Payment Officer' from the payroll department • 1 user as 'System Support and Development Officer' from the payroll department <p><u>Unit 4</u></p> <ul style="list-style-type: none"> • 2 users as 'Finance Systems Technician' from the finance team • 2 users as 'Accountant' from the finance team • 1 user as 'Systems Administrator' from the finance team <p><u>Risks</u></p> <p>A combination of administration and financial privileges creates a risk that system enforced internal controls can be bypassed. This could lead to unauthorised changes being made to system parameters, creation of unauthorised accounts, or the deletion of audit logs or disabling logging mechanisms.</p> <p>We therefore reiterated the recommendations made in the prior year.</p>	<p><u>i-Trent</u></p> <p>A review of the rights assigned to the Admin role will be undertaken and duties segregated where possible.</p> <p><u>Unit 4</u></p> <p>The users in question need the access they have been given, in order to facilitate the smooth running of systems and processes that the Council has in place.</p>

Assessment

- Significant deficiency – ineffective control/s creating risk of significant misstatement within the financial statements and/or directly impacting on the planned financial audit approach
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within the financial statements and not directly impacting on the planned financial audit approach
- Improvement opportunity – improvement to control, minimal risk of misstatement within the financial statements and no direct impact on the planned financial audit approach

Appendix B

VFM extension letter

Dear Councillor Manjit Kaur Saini,

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest.

Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 28 February 2022 .

As a result, we have therefore not yet issued our Auditor's Annual Report (AAR), including our commentary on arrangements to secure value for money. We anticipate completing our audit work on the financial statements by the end of November and will therefore be issuing our AAR no later than 28 February 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Grant Patterson

Director



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