

The Interim DRAFT Audit Findings for Leicester City Council

Year ended 31 March 2022

22 November 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 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.

This Interim Audit Findings presents the current observations from the audit work currently undertaken that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Audit & Risk Committee.

Grant Patterson

Name : Grant Patterson

For Grant Thornton UK LLP

Date : 22 November 2022

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Leicester City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work has been conducted from June to date. Our interim findings are summarised on pages 5 to 21. It should be noted that our audit work is still in progress and that there are some areas of work where findings are still being concluded upon.

At this point in time two adjustments to the financial statements have been identified that have resulted in a £3.413m adjustment to the Council's Comprehensive Income and Expenditure Statement. One is as a result of an incorrect formulae leading to incomplete processing of asset revaluations in respect of one asset and another is due to a spreadsheet error leading to an asset's value being overstated by £5.2m. Audit adjustments are detailed in Appendix C.

As noted in Appendix C, we have identified omissions from the Council's financial instruments disclosure at Note 18 in respect of long-term creditors and short-term or long-term debtors. These are being amended for and comparative information is also being updated accordingly.

Appendix C also includes reference to the cashflow statement and the figures therein pertaining to the purchase and proceeds of short and long-term investments which are significant for both prior year and current year. We queried as to whether some of these transactions might actually be cash and cash equivalents. Upon further investigation it was determined that this was indeed the case as some of this balance included transactions pertaining to money market funds (MMF), which are accounted for as cash and cash equivalents. This has resulted in a reduction in the disclosures in respect of purchase and proceeds of investments of £702.9m in 2021/22 and £562.9m in 2020/21. There is no impact upon the balances in the general fund.

As noted on page 12 we have identified that the Council has not been applying the 'instant build approach' required by the CIPFA Code when valuing assets on a depreciated replacement cost basis. The Council is in the process of revisiting its valuations. This will also result in an adjustment to prior year figures, to remove the effect in the comparative year. This adjustment is expected to be material but will not impact the balances in the general fund.

We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

There are a number of matters still underway as at the time of writing but from the work done to date there are no matters of which we are aware that would require modification of our audit opinion subject to satisfactory resolution of the outstanding matters, as set out on page 6.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

We anticipate that our audit report opinion will be unqualified, but we will be unable to certify the audit closed until our work on the whole of government accounts is complete and we have issued our Annual Auditor's Report (covering our work on the Council's value for money arrangements).

This is also dependent on the conclusion of the national sector-wide issues in relation to infrastructure assets. For further detail, refer to page 12.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was presented to the September Audit & Risk Committee (see below). We expect to issue our Auditor's Annual Report for consideration at the next Audit & Risk Committee. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of financial sustainability. Our work on this risk is underway.

We reported to you in our progress report of 28 September 2022 that we anticipated providing our Annual Auditor's Report no later than the end of February 2023. This remains the case.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in due course.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This interim Audit Findings Report presents the observations arising from the audit at this time that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be discussed with the Audit & Risk Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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 for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

Our audit continues to be underway as at the time of writing with some outstanding queries yet to be resolved. The outstanding matters are listed overleaf and are as at the time of writing. We will update the Committee verbally of progress against these matters at the meeting on 22 November.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements

Status of the audit: the outstanding matters as at the time of writing are set out below.



- receipt of responses from the Council's internal and external valuers on our queries and our consideration thereof
- completion of our work on the valuation of land and buildings including consideration of the amendment to other land and buildings valued at depreciated replacement cost and the impact on prior year
- final manager and engagement lead review of all of the above once completed
- update our consideration of the Council's approach to accounting for infrastructure assets on receipt of the forthcoming statutory instrument; not due to take effect until 25 December 2022.



- receipt of IAS19 assurances from the pension fund auditor
- completion of our work on the Expenditure and Funding Analysis
- final manager and engagement lead review of the above once completed



- completion of our work on the Council's PFI disclosures
- receipt of responses to our queries on capital commitments, school balances, housing benefit payments, agency and employee training, NNDR and Council Tax exemptions and reliefs, and employee changes in circumstances
- clearance of queries raised in respect of expenditure cut-off, PP&E additions, debtors and creditors and HRA capital expenditure not adding value
- receipt of the Council's WGA pack and completion of our procedures thereon (if required)
- receipt and review of the updated financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

Status

- High potential to result in material adjustment or significant change to disclosures within the financial statements
- Some potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

2. Financial Statements



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.

Materiality levels remain the same as reported in our audit plan.

We detail in the table below our determination of materiality for Leicester City Council.

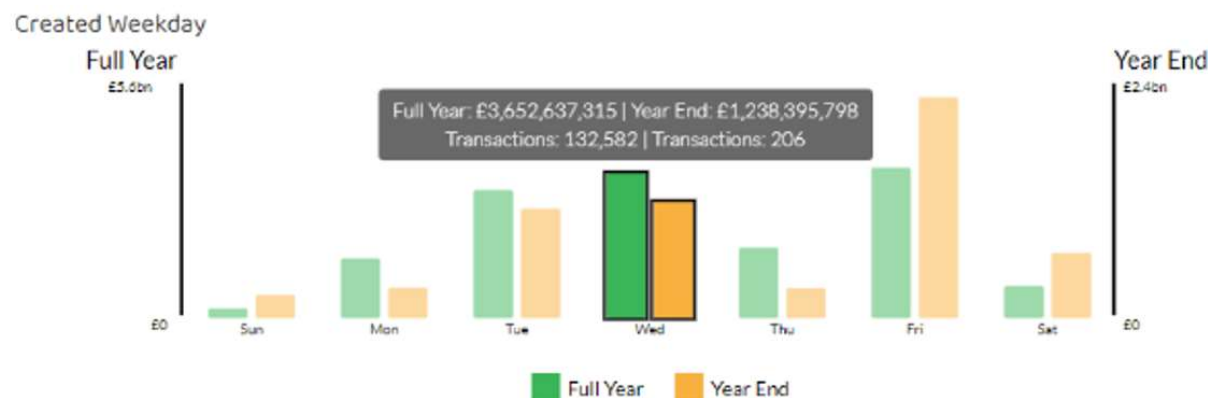
	Materiality	Qualitative factors considered
Materiality for the financial statements	£15.000m	<p>We determined materiality for the audit of the Council's financial statements as a whole to be £15,000,000, which is approximately 1.3% of the Council's gross operating expenses.</p> <p>This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.</p>
Performance materiality	£9.800m	<p>We use a different level of materiality, performance materiality, to drive the extent of our testing. Our consideration of performance materiality is based upon a number of factors:</p> <ul style="list-style-type: none"> • We have not historically identified significant control deficiencies as a result of our audit work • We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment • There were prior period errors in 2019/20, and adjustments in 2020/21 identified in relation to property, plant and equipment and capital expenditure with an absolute value of £15m. • Senior management and key reporting personnel in the finance function has remained reasonably stable from the prior year audit <p>On this basis we have reduced the performance materiality from a possible 75% (standard threshold) to 65%.</p>
Trivial matters	£0.750m	<p>We determined the threshold at which we will communicate misstatements to the Audit & Risk Committee to be £750,000, which is approximately 5% of materiality.</p>

2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.</p> <p>The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> - evaluated the design effectiveness of management controls over journals - analysed the journals listing and determined the criteria for selecting high risk unusual journals - identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration - gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness <p>Findings</p> <p>The Council processed journals comprising in excess of 306,000 transactions each containing multiple lines of data in respect of the year ending 31 March 2022, with a value in excess of £21 billion. Just 0.4% of these by number occur at year end but they make up nearly 30% of the value, with the majority linked to a handful of users. While we generally anticipate an increase in activity at year end, auditing standards specifically require us to consider year-end journals and therefore we consider them separately.</p> <p>The charts below and overleaf are taken from our 'info' software which we use to analyse the transactions posted by the Council during the year. They are included to demonstrate the volume of such transactions and why therefore we review them as part of our response to this significant risk.</p> <p><u>Transactions by day</u></p>



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Management over-ride of controls

The table below is taken from the information from the chart on the previous page and sets out the number and value of transactions posted on each day. This data is included for information.

Weekday	Full year Number	Year End Number	Full year value	Year End value
Sunday	98	20	£246,895,989	£246,387,953
Monday	41,637	163	£1,499,471,250	£321,179,411
Tuesday	49,366	189	£3,227,152,591	£1,161,566,564
Wednesday	132,581	206	£3,652,637,315	£1,238,395,798
Thursday	43,444	310	£1,776,952,430	£317,061,507
Friday	35,676	207	£3,791,838,934	£2,345,931,840
Saturday	2,408	82	£810,224,968	£692,373,234
TOTAL BY NUMBER 306,388	99.62%	0.38%	-	-
TOTAL BY VALUE £21,328,069,866	-	-	70.35%	29.5%

As in the prior year we noted that there is a lack of an established approval process for journals; instead placing reliance on the Council's day-to-day activities to identify any journals that were posted incorrectly.

Since November 2019 the Council has put in arrangements which mitigate this deficiency to a certain extent. Each individual journal is still not counter signed but since November 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.

Our approach to this work was informed by the findings made by our IT audit specialists from their review of the Council's IT general controls. IT audit undertook a design and implementation review of the following applications, which were scoped into the review on the grounds that they impact the financial reporting of the Council:

- i-Trent (HR and payroll system)
- Civica (Housing Benefits)

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Management over-ride of controls (continued)

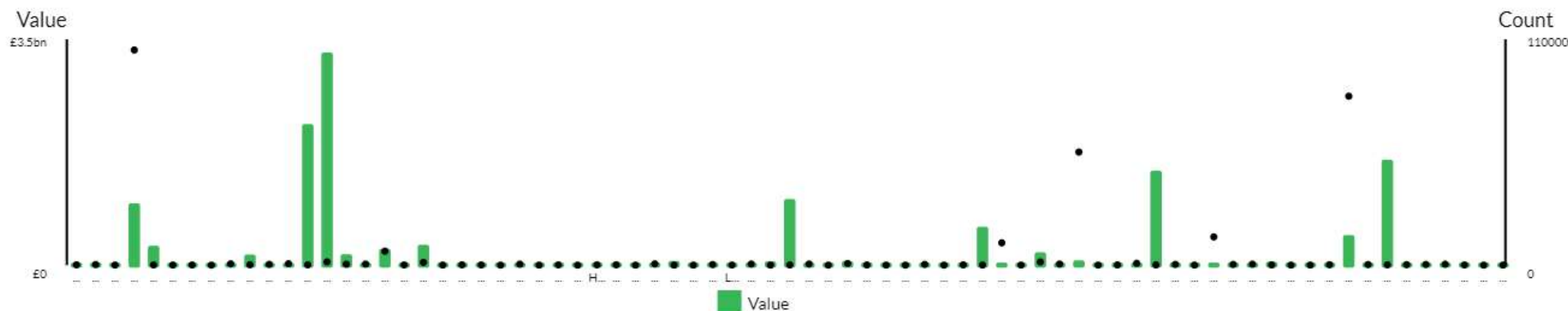
- Unit-4 (General ledger)
- Active Directory (domain controller authenticating and authorising users and assigning and enforcing security policies, e.g. password control)

One deficiency was raised, which is that administrative access to i-Trent and Unit 4 had been granted to users who also have financial responsibilities.

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.

Transactions by user

Our data analytics approach allows us to review all transactions posted during the year by any one individual. For five of these users, there were no outputs and therefore we were satisfied that their conflicted system access had not impacted on the financial reporting. For the remaining five users (a small amount compared to the 75 users with output below) we reviewed the output but did not consider that the risk was sufficiently mitigated from this review. We therefore enhanced our journals testing in this regard to look more closely at the journals posted.



We are in the process of completing this work but have no findings to bring to your attention other than the deficiency identified above.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Presumed risk of fraud in revenue recognition ISA (UK) 240

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 ISA 240, and the nature of the revenue streams of Leicester City Council, we have determined that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because:

- There is little incentive to manipulate revenue recognition
- Opportunities to manipulate revenue recognition are very limited; and
- The culture and ethical frameworks of public sector bodies, including Leicester City Council, mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk for the Council.

Commentary

Notwithstanding that we have rebutted this risk, we have undertaken a significant level of work on the Council and Group's revenue streams, as they are material. We have:

Accounting policies and systems

- evaluated the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code
- updated our understanding of the Council's business processes associated with accounting for income

Fees, charges and other service income

- agreed, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence.

Taxation and non-specific grant income

- applied substantive analytical procedures to income for national non-domestic rates and council tax

Other grants

- sample tested items back to supporting information and subsequent receipt, considering accounting treatment where appropriate.

We also designed tests to address the risk that income has been understated, by not being recognised in the current financial year.

Findings

We have no findings to bring to your attention from work done to date, but note that there are queries that are yet to be resolved with the Council in respect of our work on council tax and NNDR income.

Risk of fraud related to expenditure recognition: Public Audit Forum (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). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.

Having considered the nature of the expenditure streams of Leicester City Council, and on the same basis as that set out above for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition.

Notwithstanding that we have rebutted this risk, we have undertaken a significant level of work on the Council's expenditure streams, as they are material. In addition to reviewing the accounting policies as highlighted above, we have:

Expenditure

- updated our understanding of the Council's business processes associated with accounting for expenditure
- agreed, on a sample basis, operating expenditure, housing benefit expenditure, agency costs and year end creditors to invoices and cash payment or other supporting evidence
- performed substantive analytical procedures on the Council's employee remuneration costs and depreciation

We also designed tests to address the risk that expenditure has been overstated, by not being recognised in the current financial year.

Findings

We have no findings to bring to your attention from work done to date, but note that there are queries that are yet to be resolved with the Council in respect of operating expenditure for items recently received. Furthermore we are awaiting evidence in support of a sample of housing benefit payments made.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of property plant and equipment: land and buildings

Within the valuation of the Council's Other Land and Buildings, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build cost of relevant assets carried at depreciated historic cost and any judgements that have impacted this assessment and the condition of the current assets.

Depreciated replacement cost (DRC) is a method of valuation that provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation. Where DRC is used as the valuation methodology, authorities should use the 'instant build' approach at the valuation date and the choice of an alternative site will normally hinge on the policy in respect of the locational requirements of the service that is being provided.

For assets valued at existing use value and fair value, the key inputs into the valuation are the yields used in the valuation, including estimated future income from the asset.

We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work
- evaluated the competence, capabilities and objectivity of the Council's internal valuer as the valuation expert
- written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met
- challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding
- engaged our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register
- evaluated 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 from current value at year end.

Findings

Reconciliation of the Fixed Asset Register to the valuer's report

This reconciliation identified that there was a difference of £5.216m between the valuation report and the entries processed in Note 15 of the financial statements. This error was due to an incorrect formula in the fixed asset register in relation to a single asset, whereby the net book value of the asset was overstated by £5.216m in the asset register as the revaluations had not been processed correctly.

The value of Property, Plant and Equipment in the balance sheet is therefore overstated for other land and buildings by £5.216m. There are corresponding impacts to the comprehensive income and expenditure restatements of £3.413m and to the revaluation reserve of £1.803m. There is no impact to the general fund as a result of this adjustment.

Year on year movements

In our assessment of the Council's valuations we created an expectation of what we anticipate the values of other land and buildings to be based on the prior year brought forward balance and the application of land and buildings indices as at 31 March 2022. We identified assets that we considered to be out of line with expectations and upon receiving our queries in relation to these assets, officers identified that there had been a spreadsheet error, whereby one asset had been valued at £11.4m rather than £6.2m. We are in the process of reviewing this error and determining the impact on our remaining work.

Depreciated replacement cost valuations

Within the valuation certificates for all assets with a depreciated replacement cost valuation there is an adjustment for tender price index backdating. The tender price index measures the movement of prices in tenders for building contracts and therefore is used to inform what a modern equivalent asset building would cost to build, and hence what the valuation of said asset should be in the financial statements of the Council. We note that whilst this approach is in accordance with the RICS guidance on the depreciated replacement cost method of valuation for financial reporting, the Code requires the use of the Instant Build approach for public sector valuations; a point of difference which is noted in the RICS Guidance, and therefore backdating is not appropriate to be applied.

The Council is in the process of revisiting its valuations to remove the effect of this backdating. This will also result in an adjustment to prior year figures, to remove the effect in the comparative year. This adjustment is expected to be material but will not impact the balances in the general fund.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of property plant and equipment: council dwellings

The Council contracts an expert to provide annual valuations of council dwellings based on guidance issued by the Ministry of Housing, Communities and Local Government (now Department for Levelling Up, Housing and Communities). They are valued using a beacon approach, based on existing use value discounted by the relevant social housing factor for Leicester. Dwellings are divided into asset groups (a collection of property with common characteristics) and further divided into archetype groups based on uniting characteristics material to their valuation, such as numbers of bedrooms. A sample property, the “beacon” is selected which is considered to be representative of the archetype group and a detailed inspection carried out. The valuation of this asset is then applied to all assets within its archetype.

The key inputs into the valuation are the social housing factor, consideration of market movements and the determination of the beacons.

We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

We have:

- evaluated management’s processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met
- challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding
- engaged our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council’s valuer’s work, the Council’s valuer’s reports and the assumptions that underpin the valuations
- tested revaluations made during the year to see if they had been input correctly into the Council’s asset register
- evaluated 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 from current value at year end.

Findings

HRA valuation

We noted that overall the terms of engagement outlining the scope of works of the portfolio of properties by the Council’s valuer is deemed satisfactory as at the valuation date of 31 March 2022 but could be improved in two aspects:

- the information to be relied upon by the Valuer is not set out in any detail; and
- it is unclear whether any special assumptions will be included.

We have recommended that these areas are included in the Terms of Engagement in the future.

We have queries pending in respect of our work on HRA valuations but have no further issues to report to you from our work to date

Housing Revenue Account

We note that in the Housing Revenue account the Council is reporting incurring capital expenditure which is purporting not to add value. It is unusual for this to be the case and we are therefore in discussions with the Council to confirm the treatment of this expenditure.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

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 methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls
- evaluated the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work
- assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation
- assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liabilities
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuary
- undertaken 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

Findings

The Council obtained a revised IAS19 report from its actuary to update for actual return on assets as at the balance sheet rather than the original estimate. The original IAS19 report was dated 28 April 2022 and gave the following outcome:

- Balance sheet, Note 41, Note 42 : other long term liabilities £595,619k.
- Note 18a: other long term liability pension £595,619k.
- Note 12: interest on pensions liability £17,762k.
- Face of CIES: £329,528k

The revised report was dated 23 May 2022 with an impact of £5,830k as follows::

- Balance sheet, Note 41, Note 42: other long term liabilities will be £589,789k
- Note 18a: other long term liability pension £589,789k
- Note 12: Interest on pensions liability £17,762k (no change)
- Face of CIES changes to £335,358k

The financial statements will be amended in this regard.

In order to complete our work in this area the following issues are outstanding:

- resolution of queries made to the Council's actuary to provide information relating to the duration of the Council's unfunded liabilities as well as a request to provide a more accurate (i.e. not rounded) figure for the Council's share of the pension fund assets
- assurances from the auditor of the Leicestershire County Council 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's financial statements.

2. Financial Statements - Other risks

Risks identified in our Audit Plan	Commentary
<p>Operating expenditure</p> <p>Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses.</p> <p>Management uses judgement to estimate accruals of un-invoiced costs. We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention.</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness gained an understanding of the Council's system for accounting for non-pay expenditure tested a sample of balances included within trade and other payables tested 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. tested a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period. <p><u>Findings</u></p> <p>We have no findings to report to you from our work to date but some queries in respect of our work on creditors are still in the process of being resolved as at the time of writing.</p>
<p>Completeness, existence and accuracy of cash and cash equivalents</p> <p>The receipt and payment of cash represents a significant class of transactions occurring throughout the year, culminating in the year end balance for cash and cash equivalents reported on the statement of financial position.</p> <p>Due to the significance of cash transactions to the Council, we identified the completeness, existence and accuracy of cash and cash equivalents as a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none"> agreed all period-end bank balances to the general ledger and cash book; agreed cash and cash equivalents to the bank reconciliation; agreed all material reconciling items and a sample of other items to sufficient and appropriate corroborative audit evidence; written to the bank and obtain a bank balance confirmation; agreed the aggregate cash balance to the relevant financial statement disclosures. <p><u>Findings</u></p> <p>We have no findings to report to you from our work to date but some queries in respect of our work are outstanding as at the time of writing; being resolution of queries in respect of our sample testing of schools balances.</p>

2. Financial Statements - Other risks

Risks identified in our Audit Plan

Infrastructure assets

The CIPFA Code of Practice on Local Authority Accounting prescribes the accounting treatment and disclosure requirements for infrastructure assets. The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. The Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. These requirements of the Code derive from IAS 16 Property, Plant and Equipment.

The Council has material infrastructure assets and there could therefore be a potential risk of material misstatement related to this balance.

Commentary

Infrastructure assets includes roads, highways, streetlighting and coastal assets. In accordance with the CIPFA 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:

1. 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.
2. 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.

For the avoidance of any doubt, these two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response. We are also aware that CIPFA are consulting on adaptations to the Code which we will factor into our response once the outcome is known.

In order to be able to conclude whether there is a risk of material misstatement our response at this time is that we have:

- assessed the risks of material misstatement related to infrastructure assets
- updated 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.

Findings

We are able to sample additions to infrastructure in the current year to review the basis of asset life and conclude on whether this is reasonable and correctly factored into depreciation calculations but this becomes more difficult in respect of historic infrastructure assets because individual infrastructure assets are not recorded separately on the Council's fixed asset register: the highways network is treated as one asset, due to components working together as part of a continuous network. This is similar approach to networking computers being capitalized as one asset as part of intangible assets, but it does mean that the Council do not recognize any separate components for infrastructure assets.

There is currently no de-recognition of previous assets: the assumption is that when works are undertaken it is on assets which have reached the end of their useful life and so they have nil net book value. As such we do not have assurance that the value of infrastructure is not materially misstated.

Audit firms, practitioners, DLUH and CIPFA have been in consultation with regard to this national, sector-side issue and a statutory instrument is expected to come into force as of 25 December, specifically in relation to local government's treatment of infrastructure assets. The wording of this SI is not yet finalised and therefore we are not yet in a position to conclude what further work will be necessary to satisfy ourselves over the accuracy of the Council's infrastructure assets.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

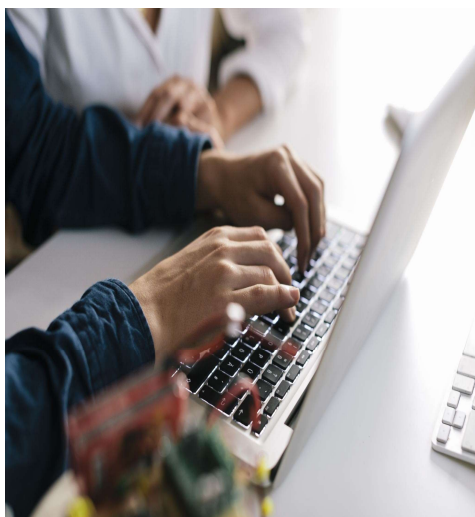
Issue	Commentary	Auditor view
<p>Segregation of duty conflicts within i-Trent and Unit 4</p> <p>Administrative access to i-Trent (via 'LCITC SYSTEM ADMIN') and Unit 4 (via 'AG-SYSTEM' role) has been granted to users who have financial responsibilities. The combination of financial responsibilities with the ability to administer end-user security is considered a segregation of duties conflict. 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"> • 'Finance Systems Technician' from the Finance department. • 'Accountant' from the Finance Team. 	<p>Risks</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>This finding is consistent with prior year and we have reported on pages 8 and 9 the impact it has had on our audit approach and the additional steps taken to mitigate the risk.</p> <p>We have rolled forward our recommendations in the action plan, but note that in respect of Unit 4, management accept the risk in place.</p>

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit & Risk Committee have not been made aware of any incidents in the period other than those which are reported to Committee from the local counter fraud services. Furthermore no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed, though note that our work is still underway as at the time of writing.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Council on completion of our work. The wording of this letter will be provided at a future Committee, once our work has been concluded.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	<p>We requested from management permission to send confirmation requests to those organisations with which it banks, borrows and in which it invests. This permission was granted and the requests were sent.</p> <p>The majority of these requests have been returned, though 6 investment confirmations are outstanding and are being actively chased.</p>
Accounting practices	<p>We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.</p>
Audit evidence and explanations/ significant difficulties	<p>As noted elsewhere in this report there are several areas where queries remain outstanding, most significantly in relation to the Council's valuation of land and buildings. The valuer responsible for preparing the valuation works two days a week and therefore has limited capacity to address queries raised. We are working with the Council's finance team to progress these issues as quickly as possible, but this is incurring additional audit time and effort.</p>

2. Financial Statements - other communication requirements



Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p data-bbox="871 464 2051 603">In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p data-bbox="871 619 2011 671">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="871 687 2074 983" style="list-style-type: none"> • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p data-bbox="871 999 2051 1137">Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul data-bbox="871 1153 1973 1297" style="list-style-type: none"> • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. <p data-bbox="871 1313 2051 1335">On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="871 1351 2051 1445" style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters but note that as in prior years the Council's AGS is 'light'. While we have concluded it meets requirements the Council should consider enhancing its narrative for future years to more fully explain its governance arrangements, especially in light of governance failures elsewhere in the public sector.</p> <p>We have raised a recommendation in this regard.</p> <p>We also note that the AGS will need to be updated to reflect any changes or emerging issues over the coming months as it is required to comment upon events up to the date that the accounts are authorised for publishing.</p>



3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 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.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

3. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, which were charged from the beginning of the financial year to November 2022, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats	Safeguards
Audit related*			
Certification of 2020/21 Teachers' Pension Return (November 2021)	5,550	For these three audit-related services, we consider that the following perceived threats may apply:	The level of this recurring fees taken on their own are not significant in comparison to the confirmed scale fee for the audit of £118,884 (AuditorDirectoryforWebsite2021-2022_3-February-2022.xlsx (live.com)) and in particular relative to Grant Thornton UK LLP's turnover overall. Further, each is a fixed fee and there is no contingent element to any of them. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of 2020/21 Housing Benefits subsidy (June 2021 – January 2022)	54,000	<ul style="list-style-type: none"> Self-interest (because these are recurring fees) 	Our team have no involvement in the preparation of the relevant form which is certified, and we do not expect material misstatements in the financial statements to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required to audit the financial statements.
Certification of 2020/21 Housing capital receipts (January – February 2022)	5,075	<ul style="list-style-type: none"> Self review Management 	The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team perform these engagement sin line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management.
There were no non-audit related services			

* Current year proposals for these audit-related services are £7,500, £62,000 and £6,000 respectively. Time frames are expected to be similar to those seen in 2020/21.

3. Independence and ethics

Audit and non-audit service

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit service was identified, which has been charged from the beginning of the financial year to November 2022, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
CFO insights	12,500 (per annum for 3 years)	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 anticipated to be £12,500 in comparison to the total fee for the audit 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.
		Self-review (because GT provides audit services)	To mitigate against the self review threat , the work is undertaken by a team independent of the audit team. The audit will consider the accounting treatment of the payments made and this is not part of CFOi service. There is not considered to be a significant self-review threat.

CFO Insights is an online software service offering from Grant Thornton UK LLP that enables users to rapidly analyse, segment and visualise all the key data relating to the financial performance of a local authority. The financial data, revenue outturn and budget data for the current year and the previous year (and in time up to 10 years), is provided by CIPFA and the socio-economic data is drawn from Place Analytics. The data is contextualised using a range of socio-economic indicators enabling a local authority to understand its relative performance.

It is reported to you here, as the Council has taken out a subscription to this service for three years at £12,500 annually.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. The service is not subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements




We have identified 2 recommendations for the Council as a result of issues identified during the course of our audit to date and have rolled forward a further 2 from prior year. We may identify further opportunities for improvement as we conclude our work. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	<p>Segregation of duty conflicts within i-Trent and Unit 4</p> <p>Administrative access to i-Trent (via 'LCITC SYSTEM ADMIN') and Unit 4 (via 'AG-SYSTEM' role) has been granted to users who have the ability to enter financial transactions. The combination of this and the ability to administer end-user security is considered a segregation of duties conflict. We noted that the following individuals had such elevated permissions:</p> <p>i-Trent</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 <p>1 user as System support and development officer from the 'Payroll' department.</p> <p>Unit 4</p> <ul style="list-style-type: none"> 'Finance Systems Technician' from the Finance department. 'Accountant' from the Finance Team. <p>Risks</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>It is recommended that:</p> <ul style="list-style-type: none"> Management should consider reviewing access rights assigned to all system users to identify and remove conflicting access rights. 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. 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>Management response</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>




Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
High 	Valuation process of other land and buildings While our work on the valuation process is still underway at the time of writing, we have identified two errors from the work done to date. Therefore, we do not consider this recommendation to be fully addressed and have rolled this recommendation forward into this year's Action Plan, amending it accordingly to reflect the particular errors identified in the current year.	<p>It is recommended that officers and the valuer ensure that the information used in the valuation process is the most up to date and in line with relevant guidance.</p> <p>We also recommend that the valuer documents robustly and in detail, the rationale behind assumptions applied as the valuations are produced, to ensure that an audit trail is readily available.</p> <p>Management response [...]</p>
Medium 	Annual Governance Statement We consider the Council's Annual Governance Statement to be 'light' in comparison to other examples we see in the sector. While we have concluded it meets requirements the Council should consider enhancing its narrative for future years to more fully explain its governance arrangements, especially in light of governance failures elsewhere in the public sector.	<p>We recommend that the Council consider enhancing its Annual Governance Statement to provide greater detail on how it ensures that its governance arrangements in place are appropriate and adequate and are functioning effectively.</p> <p>Management response [...]</p>
Low 	Terms of Engagement with valuers responsible for valuing Council Dwellings We noted that, overall, the terms of engagement outlining the scope of works of the portfolio of properties by the Council's valuer is deemed satisfactory as at the valuation date of 31st March 2022 but could be improved in two aspects: <ul style="list-style-type: none"> the information to be relied upon by the Valuer is not set out in any detail; and it is unclear whether any special assumptions will be included. 	<p>We recommend that these missing aspects are included in the Terms of Engagement in the future.</p> <p>Management response [...]</p>

Controls

-  High – Significant effect on financial statements
-  Medium – Limited Effect on financial statements
-  Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Leicester City Council's 2020/21 financial statements, which resulted in 3 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note 2 require continuing action.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	<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 the ability to enter financial transactions.</p> <p>The combination of this 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>The update to this finding for the current year instead on page 17. While the Council accept the risk in relation to Unit-4 there is action required in relation to i-Trent. This is set out within the Action Plan on page 26.</p>
x	<p>Valuation Process</p> <p>It is recommended that officers and the valuer ensure that the information used in the valuation process is the most up to date. We also recommend that the valuer documents the rationale behind assumptions applied as the valuations are produced, to ensure that an audit trail is readily available.</p> <p>Secondly, we recommend that officers are reminded of the need to notify finance such that any changes to the status of assets, such as them being demolished, or in the case of a capital project, when it's aborted, such that the appropriate financial amendments can be made.</p>	<p>While our work on the valuation process is still underway at the time of writing, we have identified two errors from the work done to date.</p> <p>Therefore, we do not consider this recommendation to be fully addressed and have rolled this recommendation forward into this year's Action Plan. Upon conclusion of our work we will refine our recommendation to reflect the particular errors identified in the current year.</p>
✓	<p>Useful economic lives of assets</p> <p>From review of the Council's fixed asset register, we have identified that there are 880 assets with a gross book value of £35.8m which have no remaining useful economic life.</p> <p>The net book value of these assets is £nil, so they have no impact on the financial statements, however this may be indicative that either there are assets in the fixed asset register that no longer belong to the Council, or the useful economic lives assigned to these assets were not appropriate.</p> <p>We recommended that the Council review assets with on useful economic life remaining and take action as appropriate based on their findings.</p>	<p>The finance team have investigated the issue with colleagues in order to address our recommendation and have identified disposals of £26m which have been written out of the accounts.</p> <p>This finding is considered to be addressed though we would expect the Council to continue undertaking review of such assets so that the fixed asset register reflects the most up to date position each year.</p>

Assessment

✓ Action completed

x Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

These are the adjustments as at the time of writing, and will be updated as our work concludes.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
Incorrect formulae in fixed asset register There is a difference of £5.216m between the valuation report and the entries processed in note 15 of the financial statements due to an incorrect formula in the fixed asset register in relation to a single asset, whereby the net book value of the asset was overstated by £5.216m in the asset register as the revaluations had not been processed correctly. The value of Property, Plant and Equipment in the balance sheet is therefore overstated for other land and buildings by £5.216m. There are corresponding impacts to the comprehensive income and expenditure restatements of £3.413m and to the revaluation reserve of £1.803m. There is no impact to the general fund as a result of this adjustment.	3,413	5,216	3,413
Spreadsheet error An asset had been mistakenly input into the valuation spreadsheet with a valuation of £11.2m rather than £6.4m leading to an overstatement of £5.2m.	-	5,200	-
Overall impact	£3,413	£10,416	£3,413

C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
<p><u>Investing Activities</u></p> <p>Note 28 to the accounts is a note to the cash flow statement analysing investment activities. The figures pertaining to the purchase and proceeds of short and long-term investments are significant (for both prior year and current year). We queried as to whether some of these transactions might actually be cash and cash equivalents. Upon further investigation it was determined that this was indeed the case as some of this balance included transactions pertaining to money market funds (MMF), which are accounted for as cash and cash equivalents.</p> <p>This classification means that they should not be shown as part of investing activities within the cashflow statement, and therefore the relevant lines from within Note 28 should be amended to remove the effect of the MMF-related activity.</p>	<p>For 2021-22 the purchase of short-term and long-term investments changes from £872.9m to £170m, and proceeds from short-term and long-term investments changes from £877.9m to £175.0m.</p> <p>For 2021-21 the purchase of short-term and long-term investments changes from £700.9m to £138m, and proceeds from short-term and long-term investments changes from £732.9m to £170.0m.</p> <p>Under IAS8 Accounting Policies, Changes in Accounting Estimates and Errors, there will need to be narrative added to the note explain the changes to the prior year figures, and that this will include:</p> <ul style="list-style-type: none"> the nature of the prior period error for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected the amount of the correction at the beginning of the earliest prior period presented; and, if retrospective restatement is impracticable, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected - not considered to be applicable in this instance as not impracticable. 	TBC
<p><u>Financial instruments</u></p> <p>Notes within Note 18 have been updated as they did not reflect financial instruments which were long- and short-term debtors or short-term creditors.</p> <p>This also has an impact on the comparative figures.</p>	<p>As well as the adjustments to the note (which are material, as they now for instance refer to long term debtors of £13.0m, short term debtors of £78.0m and short-term creditors of £207.1m for 2021/22, there will need to be an equivalent disclosure to comply with IAS8 as noted above in respect of investing activities as the figures for 2020/21 also require updating.</p>	TBC
<p><u>Pooled Budgets</u></p> <p>Gross income and expenditure for partner bodies has been incorrectly shown in the Council's I&E for ICELS. As the Council is acting as an agent on the partner bodies behalf, the gross income and expenditure should be excluded. This results in £5.9m of gross expenditure being incorrectly included and £5.9m of gross income being incorrectly included.</p>	<p>As well as the correction to the figures disclosed, we have asked the Council to expand the narrative in relation to its pooled budget schemes so that the arrangements of each scheme are more clearly set out.</p>	TBC
<p><u>Audit Fees</u></p>	<p>Disclosure in financial statements needs to be updated to reflect proposed fees.</p>	TBC

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit and Risk Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
None identified to date, but kept open pending conclusion of audit	TBC	TBC	TBC	TBC
Overall impact	£TBC	£TBC	£TBC	

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements. We are satisfied that these adjustments are still not required as they are not material in respect of 2020/21 and their impact has been superseded for 2021/22 through revised valuations.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
To correct the valuation of:		-£1.2m		
• Braunstone Leisure Centre		£1.6m		
• Haymarket Car Park	-	-£0.8m	-	Not material
• Forest Lodge Education Centre		-£0.7m		
• Soar Valley College				
Overall impact	£-	£1.0m	£-	

D. Fees

We are unable to confirm our final fees charged for the audit as the work is still underway. Our proposed fees per our plan are set out below:

Audit fees	Proposed fee	Final fee
Council Audit	173,447	TBC
Total audit fees (excluding VAT)	£173,447	£TBC
Non-audit fees for other services	Proposed fee	Final fee
Audit related services (page 23)	75,500	TBC
Non-audit related services (page 24)	12,500	12,500
Total non-audit fees (excluding VAT)	£88,000	£TBC

The fees do not reconcile to the financial statements as shown in the excerpt from the draft financial statements below.

As noted on page 30 this note will be updated when the financial statements are finalised.

Note 33 External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors:

	2020/21	2021/22
	£000	£000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	148	148
Fees payable for the certification of grant claims and returns for the year	54	54
Fees payable in respect of other services provided during the year	11	11
Total	213	213

