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The Audit Findings for Leicestershire County Council and Leicestershire County Council Pension Fund

Year ended 31 March 2020

25 November 2020



Contents



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Leicestershire County Council ('the Council') and Leicestershire County Council Pension Fund ('the Pension Fund') and the preparation of the Council's and Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

<p>Covid-19</p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council. The Council has implemented government guidance and had to look at alternate ways in which delivers services with many of the workforce working remotely from the Council Offices for the foreseeable future.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 29 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>The Council was able to produce a first draft of the financial statements in July 2020, which was in line with revised government guidance given the impact of Covid-19.</p> <p>Restrictions for non-essential travel have meant both Council and audit staff have had to carry out the financial statements audit away from the Council offices. This has changed the way in which the audit team have accessed the financial systems, interacted with the Council staff via virtual calls and use of remote file sharing software to share information, including increased testing on the authenticity and completeness of information provided by officers.</p>
<p>Financial Statements</p>	<p>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 and the Pension's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Council and income and expenditure for the year; • give a true and fair view of the financial position of the Pension Fund and the income and expenditure for the year • 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. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was carried out remotely during the September to November period. Our findings are summarised from page 6 onwards. We have identified no adjustments to the financial statements which would impact the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters, on which we will provide an update to the Committee meeting:</p> <ul style="list-style-type: none"> • final audit housekeeping steps • receipt of supporting documentation for some outstanding items in our sample testing • completion of procedures over journals, revaluation of land and buildings and procedures over the net pension liability • receipt of some third party investment confirmations from financial institutions • updating our post balance sheet events review, to the date of signing the opinion • receipt of management representation letter; and • review of the final set of financial statements. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p> <p>Our anticipated audit report opinions will be unqualified including, Emphasis of Matter paragraphs, highlighting PPE valuation material uncertainties for both the Council and the Pension Fund.</p>

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Leicestershire County Council ('the Council') and Leicestershire County Council Pension Fund ('the Pension Fund') and the preparation of the Council's and Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Leicestershire County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 18 to 19.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: <ul style="list-style-type: none"> 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 have completed the majority of work under the Code but are unable to issue our completion certificate until we complete procedures on Whole of Government Accounts.

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Acknowledgements

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

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audits 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 the Corporate Governance Committee.

As auditor we are responsible for performing the audits, 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 and Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Council and Pension Fund'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

We have had to alter our original Audit Plan to reflect our response to the Covid-19 pandemic, which included a specific financial statement level risk in relation to Covid-19 and a specific value for money risk in relation to financial sustainability.

Conclusion

We have substantially completed our audit of your financial statements and, subject to outstanding queries being resolved as detailed in the headline section, we anticipate issuing an unqualified audit opinion following the Corporate Governance Committee meeting on 25 November 2020. We will provide a verbal update at the meeting in relation to the matters currently outstanding.

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.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements (Council)	11,900,000	% of gross revenue expenditure, based on prior year financial statements
Performance materiality (Council)	8,925,000	75% of materiality
Trivial matters (Council)	595,000	5% of materiality
Materiality for Senior Officer remuneration (Council)	100,000	based on expenditure of senior officer remuneration
Materiality for the financial statements (Pension Fund)	29,000,000	% of pension fund assets
Performance materiality (Pension Fund)	20,300,000	75% of materiality

Significant audit risks - Council

Risks identified in our Audit Plan**Auditor commentary****Covid- 19 (also applies to Pension Fund)**

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided in July 2020;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the groups' property valuation expert
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.

We are satisfied for the year ending 31 March 2020 the Council have worked effectively to respond to the challenges brought by Covid-19 and were able to produce financial statements in line with revised deadlines and take into account the impact of Covid-19 on their operations and their finances.

Improper revenue recognition

As reported in our audit plan on 31 January 2020, we have rebutted the risk of revenue recognition and have deemed that this rebuttal still remains appropriate.

Significant audit risks - Council

Risks identified in our Audit Plan

Management override of controls

Auditor commentary

We have;

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determine the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work is not completed in this area, however, to date we have not highlighted any evidence of management override of control

Valuation of Land and Buildings

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
- corresponded with the valuer to confirm the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested revaluations made during the year to see if they had been input correctly into the Council 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 to current value at year end.

See page 11 for significant findings on key estimates and judgements. As reported on page 11 we will include an Emphasis of Matter in our audit opinion as a result of the material uncertainty reported in Bruton Knowles' valuation report as at 31 March 2020. An Emphasis of Matter (EoM) is not a qualification of the opinion – it is simply an additional paragraph within it which draws the reader's attention to a particular part of the accounts, in this case the disclosures of this estimation uncertainty. Almost all councils will have such an EoM in their audit reports for 2019/20.

Significant audit risks - Council

Risks identified in our Audit Plan

Valuation of pension fund net liability

Auditor commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's 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 expert (an 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 Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- 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; and
- obtained assurances from the audit of the Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

See page 12 for significant findings on key estimates and judgements. As reported on page 12 we will include an emphasis of matter in our audit opinion for the Pension Fund audit, as there is a material uncertainty disclosed in the valuation of the Direct properties of £99m. Given the Councils share of these assets is material, we will include an emphasis of matter in our audit opinion for the Council too.

Significant audit risks – Pension Fund

Risks identified in our Audit Plan

The valuation of Level 3 investments is incorrect

Auditor commentary

We have:

- evaluated management's processes for valuing Level 3 investments
- reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met
- independently requested year-end confirmations from investment managers and custodians
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period
- in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert
- tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register
- where available reviewed investment manager service auditor report on design effectiveness of internal controls.

See page 13 for significant findings on key estimates and judgements. As reported on page 13 we will include an emphasis of matter in our audit opinion for the Pension Fund audit, as there is a material uncertainty disclosed in the valuation of the direct properties of £99m.

Significant findings – other issues

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 control deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation has been delayed by one year	Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31	We are satisfied that Council has included the requirements we would expect to disclose including the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases

Significant findings – key estimates and judgements - Council

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £567m	<p>Land and buildings comprises of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its Internal Valuer to complete the valuation of properties as at 31 03 19 on a five yearly cyclical basis. £288m out of £567m of total assets were revalued during 2019/20. The valuation of properties valued by the valuer has resulted in a net decrease of £5.2m. Management have considered the year end value of non-valued properties in consultation with the valuer. Management's assessment of assets not revalued has identified no material change to the properties value.</p> <p>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 5.</p> <p>Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued in year using an indexation approach to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value.</p>	<ul style="list-style-type: none"> The Authority carries out a rolling programme that ensure that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally by qualified Royal Institution of Chartered Surveyors (RICS) qualified Valuers. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of RICS. Valuation is carried out on a selective on-going basis such that all assets are revalued at least once every five years, and on completion of a capital scheme above £100,000. In addition the top twenty valued assets are valued each year. There is a material uncertainty disclosed in the asset valuation report given the impact of Covid-19. We have therefore include an emphasis of matter in our audit opinion to reflect this material uncertainty disclosed in the valuation report and the financial statements. <p>We are currently completing our audit procedures in this area and will update for any further findings as required to committee members.</p>	

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements - Council

Accounting area	Summary of management’s policy	Auditor commentary	Assessment
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Net pension liability – £607m

The Council’s net pension liability at 31 March 2020 is £607m (PY £742m) comprising the Leicestershire County Council Pension Local Government scheme. The Council uses Hyman Robertson to provide actuarial valuations of the Council’s assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £173m net actuarial gain/ during 2019/20.

- Hyman Robertson, an external actuary firm, provide actuarial advice to the Council via the Leicestershire Pension Fund. As such, this involves providing the Council with an actuarial valuation of the pension expense calculations. The scope of the work is to undertake pension expense calculations, as instructed by the Administering Authority, for the Council, for the purposes of complying with IAS 19 (Employee Benefits) for the accounting period.
- PwC are employed by the NAO on behalf of external audit suppliers to local government to provide support to auditors when assessing the competence and objectivity of actuaries producing IAS 19 figures in respect of the Local Government Pension Scheme (LGPS). Hyman Robertson have carried out a roll forward approach from previous actuarial valuation to allocate assets and liabilities between employers at triennial valuation

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.3%	2.3%	●
Pension increase rate	1.9%	1.8%-2.00%	●
Salary growth	2.4%	1.8%-2.9%	●
Life expectancy – Males currently aged 45 / 65 (years)	22.2	21.6-23.3	●
Life expectancy – Females currently aged 45 / 65 (years)	25.2	24.6 - 26.3	●

- The pension fund financial statements have included a material uncertainty due to Covid-19 over the valuation of directly held properties of £99.6m as a result we have included an emphasis of matter in the Council’s audit opinion. Given the Councils share of these assets is material, we will include an emphasis of matter in our audit opinion for the Council too

We are currently completing our audit procedures in this area and will update for any further findings as required to committee members.

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Significant findings – key estimates and judgements – Pension Fund

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 3 investments	<p>The Pension Fund has investments in unlisted shares, private equity funds and property which in total are valued on the balance sheet as at 31 March 2020 at £1,695m. These investments are not traded on an open market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management use fund managers who value within industry accepted guidelines. The value of the investment has increased by £327m in 2019/20.</p> <p>Included in the Level 3 investments are Direct Properties valued at £99.6m. The valuation report supporting the valuation of land and buildings has reported a material uncertainty, based on RICS guidance, as a result of Covid-19.</p>	<ul style="list-style-type: none"> The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Leicestershire County Council Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. The values of the investment in hedge funds and infrastructure are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value. There is a material uncertainty disclosed in the asset valuation report for Direct Property given the impact of Covid-19. We have requested that the Pension Fund accounts show this material uncertainty in their estimates and material uncertainty disclosure. We will include an emphasis of matter in our audit opinion to reflect this material uncertainty disclosed in the valuation report and the financial statements. <p>We are currently completing our audit procedures in this area and will update for any further findings as required to committee members</p>	

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Going concern - Council

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).

Going Concern Commentary

Auditor commentary

Management’s assessment process

Management have carried out a written assessment which confirms:

- The Council have taken into account the impact of Covid-19 and other events in their assessment of Going Concern are satisfied that there is no material uncertainty to cast significant doubt on the Council’s ability to continue as a going concern. This extends but is not limited to at least twelve months from the Balance Sheet date.
- The Council has a firmly embedded financial planning process which includes a rolling four year medium term financial plan, which is updated twice per year. The Council has assessed the impact of Covid-19 in its plans.

CIPFA Code of Practice 2019/20 Code para 3.4.2.23 states "Local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future".

The presumption in local government is that the going concern assumption does apply unless there is specific evidence to the contrary from factors such as:

- announcement to wind up the authority
- failure to set a balanced budget
- external assessment concludes unsustainable
- financial plans show unable to meet obligations for foreseeable future
- significant doubts over forward financial planning arrangements.

The Covid-19 pandemic has had a limited impact so far on the Council’s finances and the Council has generated an in-year surplus and a contribution to reserves. However, Covid-19 will have a significant impact on the Councils finances in the current and forthcoming years, with a continuing high level of uncertainty, and the Council is already planning to use some of its reserve position to ensure services are delivered.

Management’s assessment has considered these areas and concluded that there is no material uncertainty in respect of going concern. The Council’s medium-term plan demonstrates that savings are required over the period of the medium-term financial plan, and there is an efficiency and rationalisation programme to meet these challenges.

As such we consider that the assessment undertaken by the Council on going concern is a reasonable and valid one and there are no indications of material uncertainty.

Work performed

We have reviewed management’s assessment and compared it with our knowledge of the Councils current financial position and its projections.

Our audit did not identify any events or conditions which may cast significant doubt on going concern assumption.

We have reviewed the estimates and assumptions made in the medium term financial plan and have deemed these to be reasonable and in line with the environment the Council works in.

Concluding comments

We are satisfied that there is no material uncertainty in the operations of the Council which would effect its ability to operate as a going concern.

Going concern – Pension Fund

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).

Going concern commentary - Council

Management's assessment process

Management have responded to the questions we set out on going concern in our “Informing the Audit Risk Assessment” document which confirms:

- There are no events, of which they are aware, that could cause sufficient material uncertainty to cast significant doubt on the pension funds ability to continue as a going concern. This extends but is not limited to at least twelve months from the Balance Sheet date

Auditor commentary

Management's assessment has considered the applicable guidance relating to public sector bodies which presumes in local government is that the going concern assumption does apply unless there is specific evidence to the contrary. Management assessment has concluded that no material uncertainty in respect of going concern exists.

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £4,312 million, were sufficient to meet 89% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £537 million. Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and liability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

As such we consider that the assessment undertaken by the Authority on going concern is a reasonable and valid and there are no indications of material uncertainty.

Work performed

We reviewed management's assessment by:

- Ensuring the assessment concurred with our knowledge of the Pension Fund
- Reviewing the Actuarial Position

Auditor commentary

- The Council's actuary, Hymans Robertson LLP completed the last triennial actuarial valuation as at 31 March 2019 and we are satisfied that the Fund's assets were sufficient to meet approximately 89% of the liabilities accrued up to that date.

Concluding comments

Auditor commentary

- We did not identify any events or conditions during the course of our audit that casted any significant doubt on the pension fund's ability to continue as a going concern.
- There is no impact on our audit opinion which is unmodified in relation to Going Concern

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
①	Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
②	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed
③	Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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.
④	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
⑤	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send requests to confirm year end bank and investment balances. This permission was granted and the requests were sent, and all received to confirm year end balances.
⑥	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
⑦	Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All supporting documentation was provided to the audit team to support their conclusions.

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, Narrative Report and Pension Fund Financial Statements), 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/Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – see appendix D</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>Note that work is not yet completed and the planned timescale for the work is to be completed in December 2020</p>
Certification of the closure of the audit	<p>We are unable to certify the closure of the 2019/20 audit of Leicestershire Council until the audit procedures over WGA are completed.</p>

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Value for Money

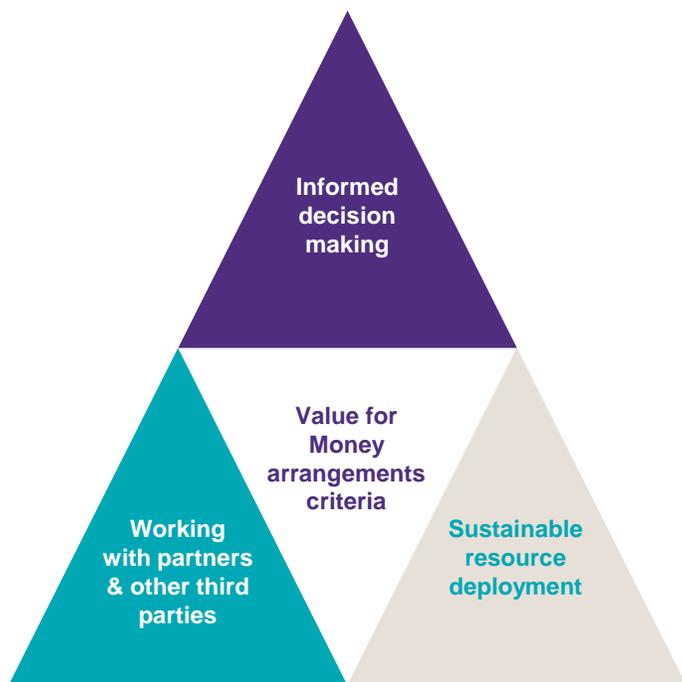
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2020 and then revisited this in April 2019 in the light of the emergence of Covid-19. We identified a significant risks in relation to financial resilience, and communicated this risks to you in our audit plan addendum dated 29 April 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the Council's arrangements for financial planning and delivery as a result of the impact of Covid-19

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on page 19.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix D.

Significant difficulties in undertaking our work

We did not encounter any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p>Covid-19 - Financial Sustainability</p>	<p>We have reviewed the financial outturn for the year ending 31 March 2020 and noted that there has been a net overspending of £3.3m, which has been offset by a reduction to the level of revenue funding of capital in 2019/20. This is similar to the amount that was anticipated and adjusted for within the refresh of the Medium Term Financial Strategy for 2020-24. Covid-19 did not have a significant impact on the Council's finances for the year ending 31 March 2020</p> <p>The Councils current estimate of net additional costs due to Covid-19 for 2020/21 is £18m after government grant support. The position has improved since the last report to the Cabinet in June 2020 which reported a net estimated cost of £28m.</p> <p>As at month 6 of 2020/21, the Council is reporting a net overspend of £7.4m for the year. This is estimated to comprise net additional costs due to Covid-19 of £12m and non Covid-19 related underspends of £4.6m. The Council has a healthy general fund position and therefore in the short term is able to meet any shortfalls to deliver a balanced budget if required.</p> <p>Before Covid-19, the 2020-24 MTFS savings requirements totalled £80m, with £39m of savings to be identified. The impact of Covid-19 now shows a predicted savings requirement of £100m across the 3 year period covering 2021/22, 2022/23 and 2023/24, with gaps of £20, £30, and £50m currently identified. However, this does not take into account the impact of any changes or increases in government funding in the period</p> <p>The impact of the increased savings requirement is an area of focus for the Council, and they are developing strategies to deal with the forthcoming cost pressures. To balance the budget without a significant impact on services will require a major efficiency initiative and increased government funding.</p>	<p>The Council's financial outturn for 31 March 2020 was in line with expectations and there was limited impact from Covid-19. The Council now like all other local authorities is reacting to the impact of Covid-19 on its service delivery and is facing financial pressures as a result for 2020/21 and is predicting an overspend against budget, even after the support of government funding. However we are satisfied in the short term the Council's general fund balance can mitigate the impact of any shortfalls.</p> <p>Over the medium term, the Council will have to look at how it balances its budget and identify savings, with a need for transformation in some areas of service delivery. The medium term position is uncertain, with much of the uncertainty stemming from the lack of clarity over the impact of central government funding in future years. However, the Council has gone into this uncertain period in a healthier position than many county councils and has strong financial planning arrangements in place.</p> <p>Overall, we are satisfied that the Council has arrangements in place to monitor its financial position for the short term, and has appropriate level of general reserves to mitigate any shortfalls if required. The Council has arrangements in place to monitor its finances in the medium term and refreshes its savings plans as required. We are therefore satisfied that they are no material weaknesses in the Council's arrangements.</p>

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Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers [and network firms]). In this context, we disclose the following to you:

A key member of the audit team has disclosed that her husband is a contributing member of the Leicestershire County Council Pension Fund. As discussed and agreed with management, as a result of the strengthening of Grant Thornton's guidance in this area, this is now deemed to be a threat to independence and she will no longer have any input to the audit of the pension fund in the next year. We have ensured that all of her audit work on the Pension Fund this year has been reviewed by the Senior Manager to mitigate any threat to independence and we have reminded her with regards to confidentiality. Given the nature of the Fund (defined benefit), however, we are satisfied that the risk to our independence is very small.

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 in Appendix C

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 25 November 2020, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return - Council	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £71,102 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 timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
IAS 19 Assurance Statements – Pension Fund	6,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,000 in comparison to the total fee for the audit of £25,530 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

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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. No non-audit services were identified.

Action plan

We have identified 2 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 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
<p> Low</p>	<p>School Bank Reconciliations not carried out on the 31 March 2020</p> <p>Our audit testing of Note 24 Cash and Cash Equivalents found that there were a few schools who completed their bank reconciliations before the year end of 31 March 2020, and there were some trivial differences between what they reported in their reconciliation compared to the year end position.</p>	<p>The Council should require all schools to complete their bank reconciliations as at 31 March (or as close as possible) in future years, to be in line with the reporting year end of the Council.</p>
<p> High</p>	<p>Information Technology Audit</p> <p>Our IT specialist auditors have completed a range of procedures over the Councils IT general controls and have noted several weaknesses in the following areas;</p> <ul style="list-style-type: none"> • System administrator staff self-assigning responsibilities in Oracle without approval or subsequent timely removal • Critical segregation of duties (SoD) conflict between Oracle system administration and finance / developer responsibilities • Generic / built in Oracle account with additional responsibilities assigned and the ability to bypass workflows • Generic system administration accounts with a lack of monitoring of user activity • Users with access to Oracle functions that allow workflows to be bypassed • Users with Oracle access that allow high risk activity to occur (Critical Security Functions and SQL Injection) 	<p>The Council should address the deficiencies identified by our IT specialist auditors and act upon their recommendations. Our IT specialist auditors have provided management with a detailed report on the weaknesses and recommendations, which management have responded to and are addressing in the move to the Fusion Cloud Platform.</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

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.

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	Detail	Auditor recommendations	Adjusted?
Note 20 Financial Instruments	The financial assets carrying amount in note 20 is understated, The value is shown as £185.8m but should be £237.4m, to include cash and all investments.	We have recommended that the Council update their disclosure in Note 20 to ensure all financial assets are included in their financial instrument disclosure	✓



Fees

We set out below our final fees charged for the audit and provision of non-audit services.

Audit fees	Original scale fee	Planned fee	Final fee
Council Audit	59,252	71,102	78,212
Pension Fund Audit	21,820	25,530	29,360

At the time of planning the audit, we agreed additional fees over and above the scale fee due to the increased work required of us to meet our regulators' increased expectations, particularly around asset valuations, the Pension Fund liability (in the Council's accounts) and valuation of hard-to-value investments (PF accounts).

We are now proposing a further 15% increase in fees due to the impact of Covid-19 on the financial statements audit. Remote working has significantly impacted on the efficiency of our audit work, because communication between our team and Council officers, particularly at a more informal level, is more difficult, and we have had to perform additional procedures to confirm the authenticity of information being provided to us remotely. We have had to deploy considerable additional resources in order to deliver audits, with the 15% increase we are asking for only covering a proportion of those additional costs as we consider it appropriate for us to also meet a significant proportion of these costs.

The proposed fees reconcile to the financial statements. The final fee is subject to confirmation from PSAA and is not accrued in the 2019/20 financial statements.

We have also undertaken the following non-audit related services for the Council and Pension Fund.

Non-audit fees for other services	Proposed fee	Final fee
Teachers Pension Certification (Council)	£5,000	£5,000
IAS 19 Assurance letters (Pension Fund)	£6,000	£6,000

Please noted the IAS 19 related costs are not included in the External Audit fee for the pension fund, as these costs are recharged to admitted bodies in the pension fund whose auditors require assurance letters.

Audit opinion

We anticipate we will provide the Council with an unmodified audit report including and Emphasis of Matter

Independent auditor's report to the members of Leicestershire County Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Leicestershire County Council (the 'Authority') for the year ended 31 March 2020 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements and Policies and Judgements. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director of Corporate Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Corporate Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Director of Corporate Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

Audit opinion

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings and the Authority's share of the pension fund's property investments as at 31 March 2020. As disclosed in note 5 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's property valuation reports. Our opinion is not modified in respect of this matter.

Other information

The Director of Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement and the Annual Report, other than the financial statements and, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Corporate Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities on page 86, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Corporate Resources. The Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director of Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Audit opinion

In preparing the financial statements, the Director of Corporate Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Corporate Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2020. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2020. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

John Gregory, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report including and Emphasis of Matter

Independent auditor's report to the members of Leicestershire County Council on the pension fund financial statements of Leicestershire County Council Pension Fund

Opinion

We have audited the financial statements of Leicestershire County Council Pension Fund (the 'pension fund') administered by Leicestershire County Council (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director of Corporate Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Corporate Resources' use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Director of Corporate Resources has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

In our evaluation of the Director of Corporate Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

Audit opinion

Emphasis of Matter - effects of Covid-19 on the valuation of property investments

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As disclosed in note 4 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in the pension fund's property valuation reports. Our opinion is not modified in respect of this matter.

Other information

The Director of Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Corporate Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities on pages 119 to 120 the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Corporate Resources. The Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director of Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Director of Corporate Resources is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Corporate Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of

Audit opinion

assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[\[Signature\]](#)

John Gregory, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

30 November 2020



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