



## **CORPORATE GOVERNANCE COMMITTEE - 25 NOVEMBER 2020**

### **EXTERNAL AUDIT OF THE 2019/20 STATEMENT OF ACCOUNTS, ANNUAL GOVERNANCE STATEMENT & PENSION FUND ACCOUNTS**

### **SUPPLEMENTARY REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **Purpose of Report**

1. The purpose of this report is to set out the key findings from the external audit of the 2019/20 financial statements and to seek the Committee's approval of the draft letters of representation.
2. The report also provides an update on the National Audit Office's (NAO) guide for Audit & Risk Committees on financial reporting and management during Covid-19.

#### **Background**

3. Grant Thornton UK LLP, the County Council's external auditor, are required to communicate the results of the 2019/20 audit of the Council's financial statements to those charged with governance prior to certifying the financial statements. The draft 2019/20 Statement of Accounts, Annual Governance Statement (AGS) and Pension Fund Accounts can be viewed on the Council's website via the following link:-  
  
<https://www.leicestershire.gov.uk/sites/default/files/field/pdf/2020/7/24/Statement-of-Accounts-AGS-and-Pension-Fund-Accounts-2019-2020.pdf>
4. A copy of the auditor's report is attached as Appendix A to this report.
5. A copy of the letters of representation for the County Council and Pension Fund are attached as Appendices B and C to this report for member consideration.
6. John Gregory, Audit Partner from Grant Thornton UK LLP, responsible for the audit will attend the Committee meeting to communicate any significant findings and answer any questions.
7. The auditor has reviewed the financial statements and, whilst there are still a few minor bits of work to finish off, has provisionally concluded that there are no material accounting issues to report. The external auditor anticipates issuing an unqualified opinion.
8. Following the outbreak of Covid-19, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 were issued in April 2020 which amended the

deadlines for the completion and external audit of the financial statements to allow additional time. The revised dates are: draft accounts to be published by 31 August 2020 and the External Audit to be completed by 30 November 2020. This change applies to the 2019/20 financial accounts only. The draft accounts were produced in July 2020.

9. The draft Annual Governance Statement (AGS) for 2019/20 was considered by the Council's Corporate Governance Committee on 24 July and was subsequently published with the draft Statement of Accounts. The Code of Practice on Local Authority Accounting in the UK 2019/20, states that the AGS should relate to the governance system as it applied to the financial year for the accounts that it accompanies. However, significant events or developments relating to the governance system that occur between the Balance Sheet date, (31 March), and the date on which the Statement of Accounts is signed by the responsible financial officer should also be reported. Such events and developments are reported on the final page of the updated AGS – see Appendix D.
10. The Committee considered a report at its meeting on 24 July 2020 which gave a summary on how the County Council was responding at that time to the NAO guidance. The guidance was in four parts. This report together with the external auditor's report provides an update on the section relating to Financial Reporting. The other areas of the NAO report are included in a separate report elsewhere on the agenda.

### **Key Findings of the External Auditor**

11. Overall there were no material issues raised in respect of the financial statements. Two recommendations were raised. These relate to minor issues around the timing of school bank account reconciliations (completed early in readiness for the planned new financial system at the time) and recommendations from the information technology audit.
12. The IT audit related to the audit of the financial system, Oracle EBS. Issues raised related mainly to a) the timely removal of the Systems Administration team's access to Oracle EBS which is used to support user queries, and b) use of the generic system administrator account, used by core ICT staff to maintain and update the system. The recommendations will be addressed as part of the implementation of Oracle Fusion Cloud which was due at the start of April 2020, but due to the outbreak of Covid-19 is now taking place in November 2020.
13. The External Auditor has also proposed an increase in their fees for the audit due to additional work on the audit arising from the impact of Covid-19 on the financial statements and the consequence of remote working on the efficiency of the audit. An increase of 15% is proposed; revised fee for the County Council of £81,767 and for the Pension Fund £29,360.

### **Financial Reporting**

14. The NAO guidance covers the Statement of Accounts, and in particular the following areas:
  - valuations, including property, pension scheme and inventory valuations;
  - completeness of liabilities;

- going concern;
  - events after the reporting period.
15. The questions raised in the guide are similar to the enquiries that the External Auditor has raised and are included in their report. Any additional comments are provided below.
  16. Valuations – the County Council uses a professional firm of RICS qualified valuers to undertake the majority of its land and building asset valuations. This is supplemented by Internal professional RICS qualified valuers for Industrial Properties and County Farms due to their specialist nature. In line with the CIPFA Accounting Code of Practice valuations are carried out on a five-year rolling programme, such that all assets are valued once every five years. The Council also values the top 20 value assets and all assets where work had been undertaken during the year, every financial year. In 2019/20 this approach resulted in £288m of assets being valued (around half of the overall value of land and building).
  17. As a result of Covid-19 the external valuer has included in their report a statement that there is uncertainty in property markets as at the balance sheet date which could affect their valuations. As a result, the external auditor will include an emphasis of matter within their audit opinion. This is explained on page 7 of the auditor's report and 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'.
  18. Pensions – the County Council and the Pension Fund engage a professional firm of Actuaries, Hymans Robertson, to carry out the triennial valuation and annual IAS19 valuation of the pension fund. The assumptions used by the actuary have been reviewed by PwC, employed by the NAO to review the reasonableness of assumptions, and have been confirmed to be all within their expected range, see page 12 of the external auditor's report.
  19. Inventory – the County Council holds inventories (stocks) of £1.7m as at the balance sheet date. The largest inventory is materials held in stores for Leicestershire Highways. Stock valuations are undertaken throughout the financial year and again in March 2020, and as close to the balance sheet date as operationally possible, in order that the correct value is reported in the financial accounts. This is the same process for all other inventories held. There are no significant adjustments to the stock valuations as at the balance sheet due to Covid19.
  20. Completeness of liabilities – through regular monthly budget monitoring (and assessment at year end) the County Council is continually assessing its exposure to liabilities. The main areas include uninsured insurance claims and bad debts. Based on the assessments made, funding is set aside in reserves and/or provisions as appropriate to the level of risk. Details are provided in Notes 12 and 27 to the accounts. An assessment of the sensitivity to increases in levels is also included in Note 5 to the accounts.
  21. Going Concern – Covid-19 has had a significant impact on the County Council's financial position. For 2020/21 the latest net additional cost is forecast to be £12m. After other non Covid-19 budget variations, the net effect is currently forecast to be

an overspend on the general fund of £7.4m at year end. The financial pressures are also forecast to continue in later years mainly due to the effects of the slow-down in the economy affecting business rates and council tax income. In response to the situation the Council has put in place a series of spending controls to reduce costs, has reassessed its four-year capital programme and is working on a programme of additional savings. These actions are expected to reduce the forecast overspend position by year end. In addition, the Council holds sufficient levels of funds and balances, for instance the general fund and other earmarked funds, that could be used to fund the in year overspend if needed. While Covid-19 is having a significant impact on the Council's finances, funding provided by the government and the actions taken by the County Council have placed it in a good position, such that there are no material issues impacting on its ability to continue operating for the foreseeable future.

22. Events after the reporting period – these are reported in Note 7 to the accounts and include the impact of Covid-19 and the potential impact of Britain's departure from the European Union. The COVID-19 pandemic has led to a recession, but the full effect of this may not be known for some time. Central Government have provided grants to mitigate the impact of COVID-19 but this will not fully cover the amount required. The County Council is able to withstand the short-term impact, but the impact is likely to be long lasting and further measures, in addition to those that are already planned, are likely to be required.
23. There is still uncertainty about the implications of Britain's departure from the European Union. At the current time it is not possible to predict the agreement that will be reached at the end of the transition period. The assumption has been made that this will not significantly impair the value of the Council's assets or change the discount rate in the IAS19 Pension disclosures. However, this assumption will be reviewed regularly.
24. Both items are indicative of conditions that exist after the balance sheet date and are therefore reported as a non-adjusting (note to the accounts) only.

### **Recommendations**

25. The Committee is asked to note this report

### **Background papers**

26. None

### **Circulation under the Local Issues Alert Procedure**

27. None

### **Equality and Human Rights Implications**

28. There are no discernible equality and human rights implications

### **Appendices**

Appendix A - External Auditor's Report

Appendix B - Letter of Representation (County Council)  
Appendix C - Letter of Representation (Pension Fund)  
Appendix D – Revised Annual Governance Statement

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