



## **CORPORATE GOVERNANCE COMMITTEE – 28 JANUARY 2022**

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

#### **AUDITOR'S ANNUAL REPORT 2020/21**

##### **Purpose of Report**

1. To present a copy of Grant Thornton UK LLP's (the County Council's External Auditor) Auditor's Annual Report on the County Council for 2020/21 for consideration and comment.

##### **Policy Framework and Previous Decisions**

2. The Committee noted and commented on the 2020/21 External Audit Plan and Risk Assessment for the Council and its Pension Fund at its meeting on 4 June 2021.
3. At its meeting on 3 December 2021, the Committee considered a report which set out the key findings from the External Audit of the 2020/21 financial statements, conducted by Grant Thornton, and presented draft letters of representation for approval.

##### **Background**

4. The Auditor's Annual Report (AAR) (attached as an Appendix to this report) is a new report that replaces the previous Annual Audit Letter and includes a more detailed review of Value for Money (VfM) arrangements. This follows a revision to the Code of Audit Practice by the National Audit Office in 2020, which was effective for audits from the 2020/21 financial year.
5. The External Auditor is required by the Local Audit and Accountability Act 2014 to satisfy itself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice, issued by the National Audit Office (NAO), requires the external auditor to report their findings to the Council.
6. The report also confirms the audit opinion on the Council's financial statements.
7. Officers have reviewed the report and their responses are included against the recommendations made.

### **Auditor's Annual Report**

8. The report covers four areas. These are financial sustainability; governance; improving economy, efficiency and effectiveness; and the opinion on the financial statements. It also reports on the Council's response to the Covid-19 pandemic.

### **Executive Summary**

9. Overall, the auditor's report is very positive with no significant weaknesses in the arrangements identified. The auditor has concluded that the Council has a good track record of sound financial management, understands and manages the financial risks, has a clear and documented governance framework and a well-developed performance management framework. In addition, the auditor has confirmed that they issued an 'unqualified' opinion on the 2020/21 financial statements of the County Council and its Pension Fund on 13 December 2021. This is in line with the report considered by the Committee at its meeting on 3 December 2021.

### **Financial Sustainability**

10. This section covers the financial outturn position for 2020/21, financial planning as part of the Medium Term Financial Strategy (MTFS) for the four years 2021-25 and the delivery of MTFS savings. The review reported that the Council has: managed its 2020/21 outturn within the approved budget, understands the financial risks which it faces and managed these risks by maintaining an appropriate level of reserves and sound financial management, has a well-established Risk Management strategy and has a robust development and monitoring of savings process in place.
11. Overall, the auditor reported that the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. However, one recommendation for improvement was made.
12. Improvement recommendation 1: The Council should consider making a clear distinction between statutory and discretionary spending in the budgetary information provided to members and published online.

Management response: This can be difficult to complete accurately due to the range and complexity of services provided and, in some cases, where the legislative requirements are not completely prescriptive. However, the Council will look to include an indicator as part of the compilation of the next MTFS, 2023-27.

### **Governance**

13. The main sections covered regarding Governance include: arrangements around risk management, internal audit and counter fraud, financial planning and monitoring compliance with regulatory requirements and required standards of behaviour.
14. The report states that the Council's Risk Management Strategy is a coherent and structured methodology to identify, assess and manage risks and that it has an embedded management strategy in place with evident elements of good practice,

such as clear engagement from members of the Corporate Governance Committee (abbreviated to CGC in the AAR).

15. The report noted that the Council's internal audit service (IAS) staff regularly attend training and development events at both Midlands and national internal audit network events. It further noted that IAS staff regularly provide further information on risks to CGC members and the IAS and the Council's directorates focus on the high-risk recommendations identified as a result of the work of the IAS. The report also mentions the extent of services provided by the IAS, including internal audit, counter fraud, risk management and audit services to other bodies.
16. Regarding monitoring compliance with regulatory requirements and required standards of behaviour, the auditor reported that 'our review of the Council's Internal Audit reports, committee meeting minutes and discussions with staff did not identify any significant governance issues or breaches of standards in 2020/21'.
17. Overall there were no significant weaknesses reported in the Council's governance arrangements for ensuring that it made informed decisions and properly managed its risks. However, two recommendations for improvement were made:
18. Improvement recommendation 2: Follow up all Internal Audit recommendations, including lower priority recommendations, through the use of the recommendation tracker.

Management response: Agreed that the IAS case management system recommendation tracker will be developed and implemented for 2022/23 audits.

19. Improvement recommendation 3: Review the level of resource dedicated to Internal Audit to ensure that sufficient capacity is available to deliver all areas of responsibility.

Management response: The auditor's review occurred before a decision was finalised to withdraw from academies provision which will return more resource to the Internal Audit service. Additionally, approval was given for replacements to vacant posts and a new apprentice post. The service has used (and will continue to use) agency and other resource and retains a small 'specialist's' budget some of which was used to commission specific procurement fraud training across the Council. Nevertheless, overall resource, working practices and relative pressures are under constant review. The recommendation specifically mentioned Counter Fraud, which is recognised as a key area to be mindful of.

### **Improving Economy, Efficiency and Effectiveness**

20. This section covers performance measurement, partnership working, procurement and contract management, and pension fund arrangements.
21. The report noted the Council's Annual Delivery Report and Annual Performance Compendium, and also the quarterly themed dashboards added to the Council's website which enabled the auditors to confirm that performance and progress remains transparent to the Cabinet and local residents and businesses. It also recognised that performance reporting was an area that the Council excels at. No

issues were reported in respect of performance measurement, partnership working and pension fund arrangements.

22. A total of five recommendations were raised in relation to Procurement and Contract Management.
23. Improvement recommendation 4: Consider whether the Template Business Cases are aligned with best practice Treasury Better Business Case templates and are supported by a prescribed corporate approach for risk and reward analysis.

Management response: The Procurement approach is a consideration of the current business case, but we will go back to the Treasury Business Case Template and review as recommended.

24. Improvement recommendation 5: Consider introducing the triage approach operated by the Commissioning Support Unit (CSU) for Property Contract Awards to other departments.

Management response: Agree that the introduction of a triage approach has been successful within property contracts and consideration is being given to other areas of the organisation that would benefit from this approach such as contracts that are high value, high risk or business critical.

25. Improvement recommendation 6: Embed a corporate approach to procurement and contract management within each department structure.

Management response: There is already a corporate approach to procurement and contract management, further work is being completed to refresh and re-promote guidance and updated documentation in the form of a Procurement Strategy and Toolkit.

26. Improvement recommendation 7: Provide annual refresher training for all staff charged with management and monitoring of contracts.

Management response: Refresher training is planned for Q2 2022 for Contract Managers, with the added element of a checklist for compliance.

27. Improvement recommendation 8: Update the list of business critical suppliers on a regular basis.

Management response: The Council recognises there is development required. Business Continuity, Contract Managers and the CSU are working together to develop and keep updated the list of business-critical suppliers.

### **Covid 19 Arrangements**

28. The auditor undertook a review of the Council's response to the Covid-19 pandemic and how the Council's arrangements have adapted to respond to the new risks it is facing. The report covers the key actions taken by the Council and found no issues with the arrangements that were put into place.

29. The auditor reports that “in our view effective governance arrangements, an understanding of the financial risks, and clear adoption of a multi-agency approach allowed Leicestershire County Council to monitor the strategic and operational impact of Covid-19 on services, businesses and residents and these arrangements have enabled timely and responsive actions to be taken”.

### **Opinion on the Financial Statements**

30. The auditor gave an ‘unqualified’ opinion on the 2020/21 financial statements for the County Council and its Pension Fund on 13<sup>th</sup> December 2021. The draft accounts were prepared on time and included a “good set of supporting working papers”.

### **Summary**

31. This is the first year of the AAR which included a detailed review of the VfM arrangements at the County Council for 2020/21. Overall the conclusion is very positive with no significant weaknesses in arrangements identified. There were some recommendations for improvement made as described with the report.
32. Representatives from Grant Thornton will attend the meeting to present the report and answer any questions.

### **Recommendation**

33. The Committee is asked to note the attached report and to provide any comments.

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

34. None.

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

35. None.

### **Background Papers**

Report to the Corporate Governance Committee on 4 June 2021 – External Audit Plan and Risk Assessment 2020/21:

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6493&Ver=4>

Report to the Corporate Governance Committee on 3 December 2021 – External Audit of the 2020/21 Statement of Accounts, Annual Governance Statement and Pension Fund Accounts:

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6825&Ver=4>

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### **Appendices**

Appendix – Auditor’s Annual Report on Leicestershire County Council 2020-21