

**REPORT TO THE MEETING OF THE  
AUDIT & STANDARDS COMMITTEE ON 27<sup>th</sup> APRIL 2022**

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<b>Status:</b>	Public report
<b>Report Title:</b>	<b>Approval of the 2020/21 Annual Governance Statement and the Annual Financial Report</b>
<b>Report Author:</b>	<ul style="list-style-type: none"><li>• Covering Report: Clive Mason, Director; Finance, ICT and Assets</li><li>• Appendix 1: Mark SurrIDGE; Director and Key Audit Partner, Mazars LLP</li><li>• Appendix 2 to 4: Clive Mason, Director; Finance, ICT and Assets and Carolyn Bland, Finance Manager and Deputy 151.</li></ul>
<b>Appendices:</b>	<ol style="list-style-type: none"><li>1. Audit Completion Report.</li><li>2. Annual Governance Statement.</li><li>3. Letter of Representation.</li><li>4. Annual Financial Report.</li></ol>
<b>Recommendation:</b>	<p>That members:</p> <ol style="list-style-type: none"><li>1. Receive the Audit Completion Report from the external auditor, and comment as they consider necessary (<b>Appendix 1</b>).</li><li>2. Receive the 2020/21 Annual Governance Statement, duly signed by the Leader of the Council and Interim Chief Executive (<b>Appendix 2</b>).</li><li>3. Note the Letter of Representation (<b>Appendix 3</b>) as authorised by the Director; Finance, ICT and Assets (as the s.151 officer).</li><li>4. Approve the 2020/21 Annual Financial Report (AFR, <b>Appendix 4</b>) and give delegated powers to the Chairman of the Committee and Director; Finance, ICT and Assets (as the s.151 officer) to authorise and sign the AFR on behalf of the Council subject to the auditors confirming an unqualified opinion on the AFR.</li></ol>

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1 **Purpose of Report**

- 1.1 To consider the external auditors Audit Completion Report (ACR) in respect of the Annual Governance Statement (AGS) and Annual Financial Report (AFR) and then accept the AGS and approve the AFR.

## Background

- 1.2 The Audit and Standards Committee (ASC) is designated as “those charged with governance” and consequently, as part of the annual governance process, the committee is required to receive the 2020/21 AGS and approve the 2020/21 AFR following consideration of the external auditors ACR. To do this, the Committee needs to follow the stages in the order shown in this report (paragraph 1.4 onwards).
- 1.3 In respect of:
- i. The impact of Covid; the Council has been subject to amended Accounts and Audit (Amendment) Regulations 2021. These amended regulations introduced a revised approval and publication deadline of 31<sup>st</sup> July 2021; which is 2 months longer than the pre-Covid regulations. It should be noted that the Council approved and published its accounts by the 31<sup>st</sup> May 2021, well ahead of the amended regulations. (<https://www.legislation.gov.uk/uksi/2021/263/made>).
  - ii. The statutory audit; there was some delay in the completion of the audit due to firstly; delays in the audit of the Leicestershire Local Government Pension Fund and also as a consequence of the Assets Review that was considered by ASC in early March. Both these issues have been addressed to the satisfaction of the external auditor.
  - iii. Public Inspection (public rights); the unaudited accounts were open for the 10-day public inspection period from the 1<sup>st</sup> June to 14<sup>th</sup> June 2021.

## Receiving the Audit Completion Report

- 1.4 The Audit Completion Report (ACR, **Appendix 1**) shows to members that the external auditor will be issuing an **unqualified opinion** in respect of the accounts (*this opinion is subject to no changes occurring between the drafting of this report and the holding of this meeting. The external auditor will confirm at this meeting if their opinion has changed and if so, why?*)
- 1.5 In respect of:
- 1.5.1 **significant findings** (ACR, Section 4), members should note **Table 1** below summaries the risk areas, issues raised, and the actions proposed by management.

AFR 2020/21 Significant Risks Reviewed by External Audit and Actions Proposed by Management			Table 1
Significant Risk Area	Description of Risk	Issue (Finding)	Actions Proposed by Management
Management override of controls	Management throughout the authority could perpetrate fraud as they have the ability to manipulate records/controls etc.	No issues found.	None.
Defined benefit liability valuation	The high value of the Employers Pension valuation poses a significant risk and therefore potential uncertainty.	No issues found.	None.
Valuation of land & buildings	Property is a significant balance and valuations are subject to management assumptions and judgements and therefore potential uncertainty.	Accounting error of £108k in respect of reclassification of an asset from Assets Under Construction to Assets Held of Sale	<p>None.</p> <p>No adjustment is to be made in the 2020/21 AFR, this will be corrected in the 2021/22 accounting year.</p> <p>As this misstatement has a nil “cash” impact on the Councils revenue position or reserves and is not material; adjustment is not necessary.</p>
		A “material valuation uncertainty clause” was included in the AFR (Note 4).	<p>None.</p> <p>This was a standard requirement due to the impacts of the Covid 19 pandemic. The assets covered by this clause were not material.</p>

AFR 2020/21 Significant Risks Reviewed by External Audit and Actions Proposed by Management			Table 1
Significant Risk Area	Description of Risk	Issue (Finding)	Actions Proposed by Management
COVID-19 grants recognition	Management have exercised judgement in the administration of some of these grants; also there are specific governance relationships in respect of whether the Council was acting as agent/principal and some grant conditions.	No issues found.	None.
Qualitative aspects of the Councils accounting policies	Review of accounting policies for compliance with regulation and quality of draft accounts.	No issues found.	None.
Significant matters discussed with management	The issues discussed included the COVID-19 grants and sources of estimate for the accounts.	No issues found.	None.
Significant difficulties during the audit.	Access to management during the audit and remote working by both the Council and Auditors.	No issues found.	None.
Audit Fees	Additional fee required in respect of additional work.	Additional fee of £26,300.  Original Scale Fee: £32,272 Revised Fee: £58,572 Increase of 81%	Of the additional audit fee; <ul style="list-style-type: none"> <li>£20,800 was due to additional statutory (i.e. no choice) work; this was in respect of valuation regulation (£9,200), increased VfM commentary (£9,200), Covid grants and accounting (£2,400).</li> <li>£5,500 was due to the additional work required in respect of the significant VFM risk.</li> </ul>

AFR 2020/21 Significant Risks Reviewed by External Audit and Actions Proposed by Management				Table 1
Significant Risk Area	Description of Risk	Issue (Finding)	Actions Proposed by Management	
Wider responsibilities	The auditor's powers and responsibilities covers such things as reports in the public interest, statutory recommendations, potential to apply the court in respect of items of account contrary to law and advisory "statutory" notices.	No issues found or such actions taken.	None.	
Possible delay in the audit certificate.	The auditor will issue an audit certificate what all duties of the auditor have been discharged.	<p>The audit certificate will be issued following completion of the audit of the Whole of Government Accounts (WGA).</p> <p>The delay in:</p> <ul style="list-style-type: none"> <li>• completion of the WGA is due to HM Treasury not yet distributing its WGA documentation, and</li> <li>• audit of the WGA is due to the National Audit Office not yet sending instructions to respective auditors.</li> </ul>	None	

1.5.2 **internal control recommendations** (ACR, Section 5), no issues were identified.

1.5.3 **summary of misstatements** (ACR, Section 6), the auditors have reported three misstatements; the:

- unadjusted misstatement is a:
  - **Transfer of an asset between “Assets under construction” and “Assets held for sale”**; this is discussed **Table 1** within the Valuation of land and buildings section.
- adjusted misstatements are:
  - **Debtors and Creditors**, there was a £194k misclassification between debtors and creditors.
  - **Net Pension Liability**; a £1.2m adjustment was needed following updated pension liability numbers that were supplied by the local government pension administrators at Leicestershire County Council.

1.5.4 **Value for Money** (ACR, Section 7), this has been discussed in the earlier agenda item 2 “External Audit Annual Report 2020/21” and as noted within that Annual Report the external auditor has confirmed:

“.....we are **satisfied there is not a significant weakness in the Council’s** arrangements in relation to improving economy, efficiency, and effectiveness.”

*This view of the external auditor on the Councils proper arrangements is subject to no changes occurring between the drafting of this report and the holding of this meeting. The external auditor will confirm at this meeting if their view has changed and if so, why?*

### **Receiving the Annual Governance Statement**

1.6 The AGS (**Appendix 2**) has been signed by both the Leader of the Council and the Interim Chief Executive and includes the updated Head of Internal Auditors Opinion. The Opinion was included in the Internal Audit Annual Report and Assurance Opinion that was reported to this committee earlier as Agenda Item 1.

1.7 In addition, the AGS addresses the Councils considerations in respect of its governance arrangements and the internal control environment, both of which are considered to be operating effectively.

## **Approve the Letter of Representation**

- 1.8 Each year a letter has to be given to the auditor by the Council which explains what the Council has done to ensure its financial records are accurate; a draft copy of the letter signed by and submitted to the external auditor is attached as **Appendix 2**.

## **Approve the Annual Financial Report**

- 1.9 As mentioned previously, the Council approved and published its accounts by the 31<sup>st</sup> May 2021. Now, “those charged with governance” are required to approve the AFR and the Council is required to publish its post audit accounts; a copy of the post-audit AFR is attached at **Appendix 4**.
- 1.10 The Committee is asked to approve the AFR, which includes the Statement of Accounts. The issues that have been raised by the auditor in respect of the AFR are detailed earlier in this report.
- 1.11 Members should note that in respect of the final AFR compared to the draft that was approved by the 31<sup>st</sup> May, as a consequence of the audit no changes have been made to cash backed (useable) reserves.

## **2 Reasons for Recommendations**

- 2.1 The process that has been followed in preparing the AGS and the AFR has been thorough and in line with statutory regulations.
- 2.2 The issues that have been identified for inclusion within the AGS are referenced within the statement and reflect the current situation.
- 2.3 Both the AGS and the AFR have been subject to external audit and review by the Council’s auditors, Mazars LLP.

## **3 Corporate Priorities**

- 3.1 The Council has a robust financial and performance monitoring process which, by Quarter 4, demonstrated the delivery of the Councils corporate priorities (respective links to Q4 [Financial Performance](#) / [Performance](#)). The AGS, AFR and external audit process are core elements of the Councils financial and non-financial governance framework and therefore provide assurance to the Council and stakeholders of the delivery of the Councils priorities.

## **4 Financial Implications**

- 4.1 There are no direct financial implications arising from this report. External audit fees have a specific budget, and the additional cost will have to be met from within current resources. It should be noted that the three misstatements noted at paragraph 1.5.3 have no impact on the Councils cash balances and useable reserves.

5 Risk Management Implications

5.1 The AGS and AFR documents, along with the process of their development and the consequential external audit process are key in the management of risk and provides assurance to the Council, its customers, and stakeholders.

6 Environmental Implications

6.1 There are no direct environmental implications arising from this report.

7 Legal Implications

7.1 There are no direct legal implications arising from this report.

8 Equality Implications

8.1 There are no direct equality implications arising from this report.

9 Community Implications

9.1 There are no direct community implications arising from this report.

10 Data Protection Implications

10.1 There are no direct data protection implications arising from this report.

11 Consultation

11.1 In line with the Account and Audit regulations the AFR was available for inspection.

12 Options Considered

12.1 Not applicable in this context.

13 Background Papers/Previous Reports

13.1 Not applicable in this context.

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**Information Issued Under Sensitive Issue Procedure: ~~Y~~/N**

**Ward Members Notified: ~~Y~~/N**