



# The Annual Audit Letter for Leicester City Council

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**Year ended 31 March 2020**

**17 March 2021**



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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Leicester City Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Risk Committee as those charged with governance in our Audit Findings Report on 24 November 2020.

## Our work

## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements as a whole to be £16,500,000, which is approximately 1.5% of the Council's gross operating expenses.
<b>Financial Statements opinion</b>	<p>We gave an unqualified opinion on the Council's financial statements on 18 December 2020.</p> <p>We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and the Council's share of the pooled property assets of Leicestershire Pension Fund given the Coronavirus pandemic.</p> <p>This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.</p>
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Council's consolidation return following guidance issued by the NAO on 21 February 2021.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	<p>We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources.</p> <p>We reflected this in our audit report to the Council on 18 December 2020.</p>
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of Leicester City Council in accordance with the requirements of the Code of Audit Practice on 25 February 2021 following completion of our work on WGA.

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# Executive Summary

## Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. As a key body in the frontline response to the pandemic, the Council has worked closely with key partners to provide support to businesses, support to individuals, establish shielding hubs and reassign staff to areas of need.

The Council are currently establishing their extended corporate strategy which will evolve into a Covid recovery plan.

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.

Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to new remote access working arrangements. This has been driven primarily by the use of technology and regular communication between the teams. We have both utilised video calling, screen sharing and other means to the fullest of our ability in order to carry out audit procedures and verify the completeness and accuracy of information.

The draft financial statements were published and provided to the audit team on 11 June 2020 and the audit has been conducted on an almost entirely remote basis, with members of the Council finance team making a limited number of visits to the City Hall where necessary.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

**Grant Thornton UK LLP**  
**March 2021**

# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £16,500,000, which is approximately 1.5% of the Council's gross operating expenses. We used this benchmark as, in our view, users of Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £800,000, above which we reported errors to the Audit and Risk Committee in our Audit Findings Report.

We also set a lower level of specific materiality of £25k for senior officer remuneration. We consider the disclosures of senior manager's remuneration to be sensitive as we believe these disclosures are of specific interest to a reader of the accounts.

### The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Covid-19</b> The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected circumstances to have an impact on the production and audit of the financial statements for the year ended 31 March 2020, included and not limited to:</p> <ul style="list-style-type: none"> <li>• Remote working arrangements and redeployment of staff to critical front line duties potentially impacting on the quality and timing of the production of the financial statements, and the evidence we could obtain through physical observation</li> <li>• Volatility of financial and property markets increasing the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we could obtain to corroborate management estimates</li> <li>• Financial uncertainty requiring management to reconsider financial forecasts supporting their going concern assessment on whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>• Disclosures within the financial statements required significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul>	<p>We worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations.</p> <p>We liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose.</p> <p>We have evaluated:</p> <ul style="list-style-type: none"> <li>• the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic.</li> <li>• whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology</li> <li>• whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances</li> <li>• management's assumptions that underpin the revised Medium Term Financial Strategy (MTFS) and the impact on management's going concern assessment, and</li> <li>• engaged the use of auditor experts in respect of Property, Plant &amp; Equipment (PP&amp;E) and council dwelling valuations – refer to page 7 for further detail on this work.</li> </ul>	<p>Our audit work has not identified any specific issues in respect of Covid-19. However,</p> <ul style="list-style-type: none"> <li>• In their report, the Council's internal and external valuers confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'.</li> <li>• Similarly, the Leicestershire County Pension Fund has included a material valuation uncertainty disclosure in relation to its property funds which form part of the pension scheme assets as a result of Covid-19.</li> </ul> <p>As a result we have included Emphasis of Matters paragraphs highlighting these matters within our auditor's report. These do not affect our opinion that the statements give a true and fair view of the Council's financial position and the income and expenditure for the year but are added to indicate a matter which is disclosed appropriately but which we consider is fundamental to a readers' understanding of the financial statements.</p> <p>The Council also updated its disclosure of post balance sheet events, to include information relating to funding received since 1 April 2020 and other significant events.</p>

# Audit of the Financial Statements (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b></p> <p><b>Council Housing - £1,001.516m.</b>  <b>Land and Buildings – Other - £1,0799.555m</b>  <b>Surplus assets - £73.633m</b></p> <p>Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years and reviewed annually. Annual valuations of council dwellings are carried out by a specialist external valuer.</p> <p>These valuations represent significant estimates by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management need to ensure the carrying value of land and buildings in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work, which has included the use of our own value to assist with our review and challenge</li> <li>evaluated the competence, capabilities and objectivity of the valuation experts</li> <li>written to the valuers to confirm the basis on which the valuations were carried out</li> <li>tested on a sample basis revaluations of the Council's operational properties, investment properties, and HRA properties during the year to ensure they have been input correctly into the Council's asset register and financial statements</li> </ul>	<p>We have no concerns over the competence, capabilities and objectivity of the internal and external valuation experts used by the Council.</p> <p>Our challenge identified a cumulative understatement of the value of Property, Plant and Equipment in relation to the 2019/20 financial statements in respect of:</p> <ul style="list-style-type: none"> <li>£9.320m as a result of assets not being initially valued</li> <li>£2.490m as a result of valuations not being processed when they should have been</li> <li>£1.224m as a result of various errors identified by the valuer as part of our review of testing of assumptions</li> </ul> <p>This gave a total understatement of £13.034m, which was not adjusted for as it was not material. We made recommendations for improvement where appropriate.</p> <p>A significant amount of work was undertaken as part of our audit challenge involving a significant amount of time and effort both on our part as well as on the part of the Council's estates team, finance team and valuer. We are aware that the Council is planning an increased amount of its own quality assurance processes for future years such that any errors are identified and resolved prior to the audit process.</p> <p>As noted on page 6, the Council's valuers confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. We have therefore included an Emphasis of Matter – 'effects of Covid-19 on the valuation of land and buildings' within our Independent auditor's report. This highlights the Council's disclosures to users of the financial statements. Our opinion is not modified in respect of this matter.</p>

# Audit of the Financial Statements (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of net pension liability</b></p> <p><b>Net pension liability – £600.488m</b></p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statement.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;</li> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• 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;</li> <li>• 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</li> <li>• obtained assurances from the auditor of Leicestershire County 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.</li> </ul>	<p>The Authority's net pension liability at 31 March 2020 is £600.488m (PY £811.626m). A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>We have compared the assumptions used by the Council's actuary against industry benchmarks. Based on the work performed we are able to conclude that management's assumptions overall are reasonable. There has been a £67m net actuarial gain during 2019/20.</p> <p>The pension fund auditor has included an emphasis of matter in their audit report on the accounts of Leicestershire County Pension Fund to reflect a material valuation uncertainty given by the valuers on the Pooled Property Fund (as a result of the impact of Covid-19).</p> <p>The Council has made appropriate disclosures explaining this uncertainty, which we have drawn to a reader's attention in our auditor's report by way of an Emphasis of Matter paragraph. Our opinion is not modified in respect of this matter.</p>



# Audit of the Financial Statements (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b> Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals</li> <li>analysed the journals listing and determined the criteria for selecting high risk unusual journals</li> <li>gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness</li> <li>obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness</li> <li>evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>	<p>As in the prior year we noted that there is a lack of established approval process for journals; instead placing reliance on the expectation for the Council's day-to-day activities to identify and correct any improper postings.</p> <p>Since November 2019 the Council has put in arrangements which mitigate this deficiency to a certain extent. Each individual journal is still not counter signed but since November all journals posted in the month are downloaded and split by the department which posted them. The principal accountant of the relevant department who posted them then picks a sample to review, making sure they should have been posted and are correct. This review is signed and dated by the principal accountant and returned to the corporate finance team. We have seen this process and are content it is working as designed.</p> <p>From the sample testing of journals undertaken we have found that they were appropriate, eligible and valid, and can be agreed to supporting evidence.</p> <p>Overall, our work has not identified any issues in respect of management override of controls.</p>

# Audit of the Financial Statements (continued)

## Audit opinion

We gave an unqualified opinion on the Council's financial statements on 18 December 2020.

## Preparation of the financial statements

The Council presented us with draft financial statements in June in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to new remote access working arrangements. This has been driven primarily by the use of technology and regular communication between the teams. We have both utilised video calling, screen sharing and other means to the fullest of our ability in order to carry out audit procedures and verify the completeness and accuracy of information.

## Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Risk Committee on 24 November 2020.

## Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in June.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO. We issued an assurance statement which did not identify any issues for the group auditor to consider on 21 February 2021.

This work was protracted due to technical issues with the Government's central system (OSCAR), which meant the Council were unable to demonstrate that they had made the required changes to their submission. The technical issues with the central system were resolved in February which allowed us to submit our assurance statement confirming that the final submission was consistent with the Council's published financial statements on 21 February 2021.

## Other matters

We identified as part of our planning work that there were a number of instances (albeit historic) of members not completing their declarations of interests. When we reviewed the related parties disclosures and compared them to companies house we identified some apparent discrepancies, which have been discussed with the Council, leading to interests in respect of three Councillors being updated. We recommended that all those who are required to declare interests are reminded of the need to update them on a real time basis.

As part of our audit we received information in respect of the Council's policies and operational procedures in respect of the issuing of Fixed Penalty Notices (FPNs) within the City Council's Wardens Services. We concluded that no formal audit action was required based upon the information we received but we were in correspondence with the Council and recommended that it review the suite of key performance indicators utilized in the Wardens Service to ensure that they fully meet the DEFRA Code of Practice on Litter and Refuse expectations in respect of performance being monitored and reported in terms of the impact the Council's actions are having in improving environmental cleanliness.

## Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Leicester City Council in accordance with the requirements of the Code of Audit Practice on 25 February 2021.

# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the 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.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work. The risks we identified and the work we performed are set out below and overleaf.

## Overall Value for Money conclusion

**We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.**

### Significant Risk - what we said in our Audit Plan

#### Financial Resilience

- The Authority has historically managed its finances well, achieving financial targets: however, the scale and pace of change for local government will affect future projections and it is important the Authority is on track to identify and produce savings required to deliver balanced budgets in the future.
- The General Fund Revenue Budget considered by Council on 20 February 2019 identified that the budget for 2019/20 was in balance following the application of the managed reserves strategy.
- However, it also noted that the Authority would be faced with finding further budget reduction and income generation proposals and there is therefore still a gap to address in terms of future funding and savings solutions.
- Since then the General Fund Revenue Budget 2020/21 to 2021/22, has been approved at Council on 19 February. It confirmed that while the budget for 2020/21 has been balanced using reserves, savings from the previous rounds of spending reviews are still being sought. The report noted that projections of spending and income have been made beyond 2020/21 but that they are “uncertain and volatile”.

In response to this risk we said we would:

- Review the Council's Medium Term Financial Strategy and financial monitoring reports and assess the assumptions used and savings being achieved.

In light of the emerging issues of COVID-19, we also had regard to the NAO's AGN 03 for 2019/20.

# Value for Money conclusion (continued)

## Value for Money Risks

### How we responded to the risk

#### Revenue Out-turn 2019/20

The reported revenue budget outturn report was reported to Overview Select Committee (OSC) on 29 July 2020 in the Council's Revenue Budget Monitoring Outturn 2019-20. This showed a positive £17.4m variance to the budget. Whilst the positive General Fund outturn position during 2019-20, and the resulting adjustments to reserves, will help to support the Council's short term financial position, it does not address the challenging financial position that the Council finds itself in over the medium term; namely ensuring that any further budget reductions required are achieved. It was reported in the General Fund Revenue Budget 2020/21 that while the budget for 2020/21 has been balanced using reserves, projections of spending and income beyond 2020/21 are uncertain and volatile and therefore just a one year budget was set. Subsequent to this the economic environment has become even more uncertain as a result of the pandemic.

#### Consideration of 2020/21 budget

The Council is undertaking scenario planning and closely monitoring the financial impact of Covid-19. Officers recognise that this is a complex, evolving and iterative process. At the time we reported in November 2020 the Council was forecasting the net impact of Covid -19 to be in the region of £6.0m.

This comprised a mix of expenditure pressures as well as lost income generation. £24m has been received in additional grant funding, but this still leaves a gap to be bridged. These plans are based upon a set of assumptions which are likely to change including how long the recovery is likely to take, how much of the lost income will be recovered and how much of the pre Covid-19 income will return in time. There is also the potential for further surges in the virus and potential lockdowns.

The Council predicted in its July report to OSC that income losses could be as much as £18.4m and increased costs could be as much as £15.8m. There are expected to be further pressures in Council Tax Support and Local Tax Payments of £2.0m and £2.5m respectively giving a potential total pressure of £38.7m. The Council has already received unring-fenced funding of £24m to help meet some of these additional costs, and will undoubtedly receive additional funding through the government's income losses scheme (as referred to in the last bullet point above), but what the value of this funding might be is uncertain, though it has been estimated by the Council to be in the region of £10m.

It reported at that time that due to the managed reserves strategy the shortfall calculated would be able to be met by the Council. However, the impact above is not based on any further second wave and assumes no further full lockdowns take place. While these aren't unreasonable assumptions to make, the environment is uncertain and therefore it is possible that the Council will be faced with looking at measures to reduce spending on non-essential functions where possible in order to reduce this impact over time.

#### Review of savings plans

The way the Council applies its savings requirements is to take the required savings out of each directorate in the budget and therefore how it monitors its savings is to monitor how it is performing against budget. However, it also flexes the budget as required as the year progressed, which can make it difficult for members and observers to assess how the original budget has changed and whether arrangements are working as expected. However, the year end outturn report details how savings have been delivered and there are monitoring reports considered at Overview Scrutiny throughout the year.

# Value for Money conclusion (continued)

## Value for Money Risks

### How we responded to the risk

As at October 2019 the most recent budget monitoring report at that time identified that additional savings had been identified for 2019-20, the actioning of which has meant that budget has been achieved. The Council is looking at developing savings schemes to fill gaps in future years and review the budget on an ongoing basis. The revenue budget report on notes that the proposed budget at that time had an underlying budget cap of £2.4m which was a £6.5m decrease from the forecast in February 2019 and is evidence of continual monitoring of not only the Council's current position but its forecasts.

The section 151 officer has noted down her risk assessment and adequacy of estimates in the 2020-21 budget as follows:

- Social care spending pressures
- Ensuring spending reviews deliver the required savings
- Achievability of estimated rates of income
- Increases in pay costs over and above the 2.5% average pay award are included in the proposed budget

As part of our analysis and given the importance of the achievability of income, we have reviewed income collection rates achieved thus far in 2019/10 to assess the Council's success in this area. For business rates collection rate is approximately 96% which is slightly below the national average (98%) but not significantly different. Annual collection rate for council tax is 95%, but as the report notes collection continues after the year in question and eventually a collection rate of 98% is achieved. Again, this is within normal parameters. Therefore conclude, that while the s151 officer has highlighted it as a risk, the Council are starting from a positive position of reasonable collection rates.

The budget seeks to manage these risks as follows:

1. A minimum balance of £15m reserves will be maintained;
2. A one-off corporate contingency of £2m is included in the budget for 2020/21;
3. A planning contingency is included in the budget from 2021/22 onwards (£3m per annum);
4. Spending Review savings are being implemented as soon as possible, and the resulting savings "banked" to support future budgets.

In support of this the uncommitted forecast reserves available to support the managed reserves strategy were £31m.

### Consideration of 2020-21 assumptions

The budget provides for:

- council tax increase of 4% in 2020/21, which is the maximum available without a referendum, (with 2% of these being for the 'social care precept').
- increase in pay costs of 2.5% (as an estimate as at the time of preparing the budget the pay scales had not been determined, so this was a provision held centrally to meet the cost)
- independent adult sector care inflation of 2% (2019-20: 2%)
- foster care inflation of 2% (2019-20: 2%)

# Value for Money conclusion (continued)

## How we responded to the risk (continued)

All of which are deemed reasonable in the current climate. However, the Council recognises that there are still many uncertainties with which to grapple:

- the ongoing impact of Covid-19 costs: some costs are known but some, for instance business rate and council tax collection rates are based on assumptions as they are dependent on how much support the government continue to provide to those responsible for paying such rates and taxes and whether they find themselves able to pay.
- the ongoing impact of Covid-19 on income: the government's scheme to provide subsidy for lost income is (all relevant losses, over and above the first 5% of planned income from sales, fees and charges, will be compensated for at a rate of 75p in every pound) is welcome, but it is not clear how long the funding will last, nor what the value of the funding might be so the Council has had to make assumptions accordingly
- the results of the comprehensive spending review, which are due out later this year along with the settlement figures thereafter

The Council is aware it will need to monitor decisions from the Government with regard to funding and respond accordingly. While the Council report that the budget approved is a one year budget it nevertheless set out forecast position for what 2021/22 would look like, but it is important to note that this is before the impact of Covid is taken into account and shows a gap in resources of £6m. The managed reserves strategy table above as well as our own review of reserves shows that the Council can weather this shortfall in the short term if savings cannot be made, but there is inevitably an ongoing need to for the Council to continue revisiting its projections and forecasts as new information on Covid costs, guidance and requirements comes to light.

## Findings and conclusions

**On the basis above we have concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place to ensure it plans finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.**

Subsequent to our conclusion being reached the Council agreed its 2021/22 budget on 17 February 2021. This noted that the Council is currently facing an unprecedented and difficult financial situation as a result of reduced Government support, alongside the coronavirus pandemic putting huge pressure on service spending and on income streams. There are also continuing, underlying cost pressures, particularly in demand-led social care services. The proposed budget for 2021/22 has an underlying budget gap of just over £17m, which represents an £11m deterioration from the most optimistic forecast presented in February 2020.

The Budget Report noted that the future shape of the Council's services will be strongly influenced by the long term consequences of the pandemic, and review would be needed to ensure it was fit to meet new challenges. Furthermore, it was possible that a significant amount of the Council's reserves may be required to meet pandemic costs. As a consequence, the following approach had been adopted:-

- a) The budget for 2021/22 has been balanced using reserves, and can be adopted as the Council's budget for that year. This is effectively a "standstill" budget representing the underlying position before any further cuts;
- b) The Council has "drawn a line" under the spending review programme, but have included in this budget assumptions about savings which can be achieved without detriment to service provision;
- c) A comprehensive financial review of the Council's position will be undertaken before setting the budget for 2022/23, to ensure ongoing financial sustainability.

In substance, the budget proposed is a one year budget, pending a fuller (post-pandemic) review. Whilst the Council has updated its figures as part of the finalisation of its budgets we are satisfied that our conclusion remains valid. We will be revisiting the position as part of work on the 2020/21 financial year.

## A. Reports issued and fees

We confirm below our fees charged and proposed for the audit and provision of non-audit services and final reports issued

### Fees

	Planned £	Actual Fees (Proposed) £	2018/19 fees £
Statutory audit scale fee	112,884	112,884	112,884
Additional proposed audit fees at planning stage	20,350	20,350	-
<b>Total proposed audit fee at planning</b>	<b>133,234</b>	<b>133,234</b>	<b>112,884</b>
Further additional fees proposed at completion		16,933	9,000
<b>Total fees</b>	<b>133,234</b>	<b>150,167</b>	<b>121,884</b>

### Audit fee variation

The Audit Plan dated March 2020 included £20,350 of proposed addition fees to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator. This is reflected in the total proposed audit fees at planning above of £133,234.

Since the presentation of the audit plan we have now reflected on the additional time taken to discharge our responsibilities as a result of Covid-19. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted including an additional significant risk being added to our Audit Plan and the move to remote working impacting upon delivery. To date, we estimate that the issues highlighted are increasing the time taken on audits by an average of 25%, in some cases higher. We understand from discussions with the ICAEW that this is similar to other firms. We have looked to mitigate this as far as possible through reduced travel time and travel costs and will absorb some of the remaining overrun ourselves. However, it is unlikely that this will be sufficient to cover the full additional cost. As a result of this extra work we are proposing a further increase in fees of £16,933 (12.7%) in addition to those proposed at the planning stage of the audit. This further charge has not been entered into lightly but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities. This brings the total proposed audit fee up to £133,234.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with local government and commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

## A. Reports issued and fees continued

### Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	
- Certification of housing capital receipts grant	5,075
- Certification of Housing Benefit Claim	54,000
- Certification of Teachers Pension Return 2019-20	5,550

### 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 table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

### Reports issued

Report	Date issued
Audit Plan and Audit Plan Addendum	25 March 2020 and 27 April 2020
Audit Findings Report	24 November 2020
Annual Audit Letter	February 2021





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