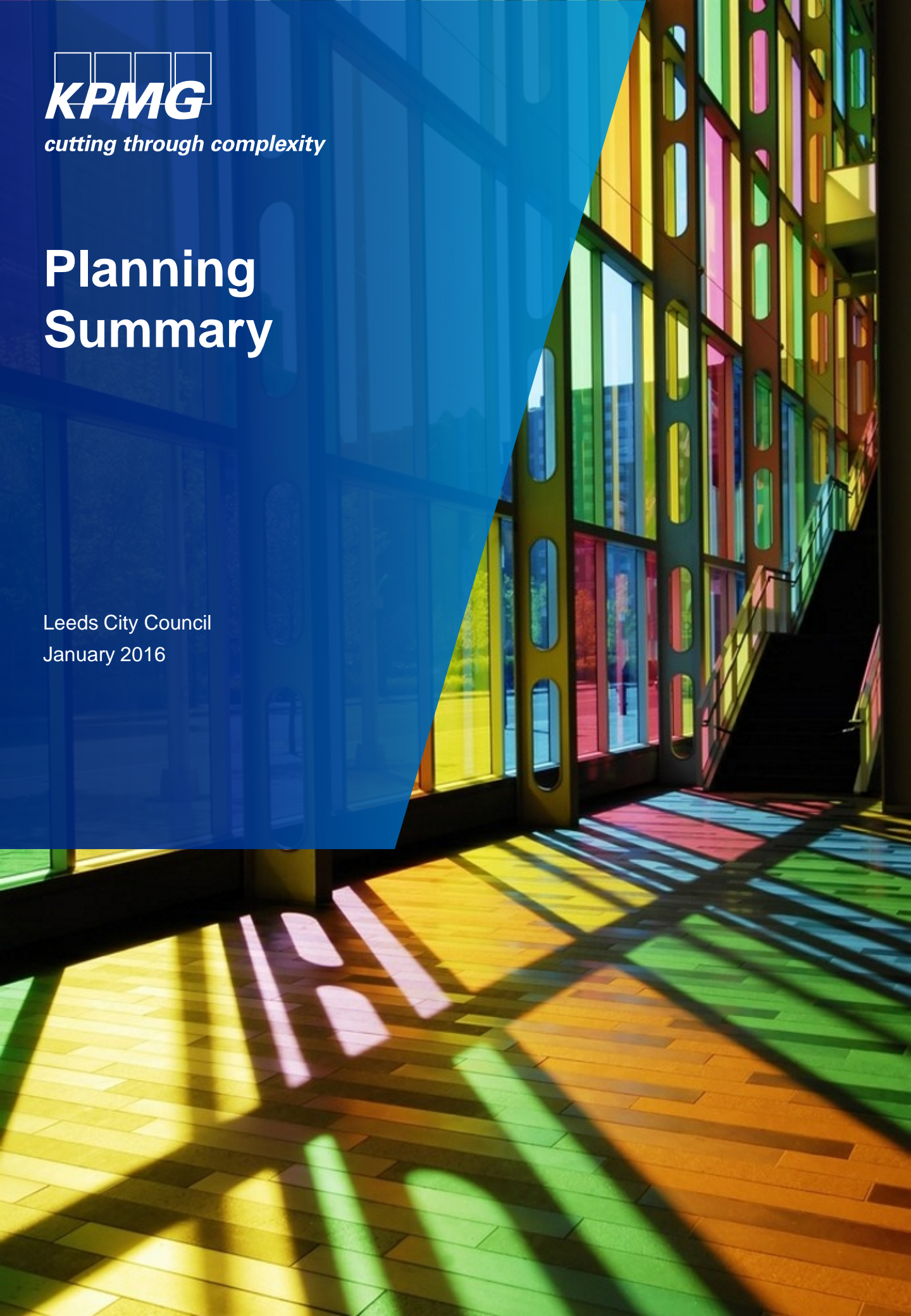




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Planning Summary

Leeds City Council
January 2016



Summary of progress of the audit planning process

Purpose of this paper

Our statutory responsibilities and powers are set out in the *Local Audit and Accountability Act 2014* and the National Audit Office's *Code of Audit Practice*.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts; and
- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

Our intention is to produce an Annual Plan outlining our audit approach and in particular the key risks to our financial statements and Value for Money (VfM) opinions and how we plan to cover these within our audit. The National Audit Office (NAO) issued its guidance in November 2015 which can be found at: <https://www.nao.org.uk/about-us/our-work/value-for-money-programme/planning-the-value-for-money-programme/>.

The areas we will review cover your arrangements for:

- *Informed Decision Making*
- *Sustainable Resource Deployment; and*
- *Working with Partners and third parties.*

Following the development of our detailed audit approach we will issue the full plan later in January 2016.

The purpose of this document is to outline the financial statements significant risks and areas of audit focus we are currently considering as part of the audit planning process.

Significant risks and Areas of focus

The risk identification process is ongoing and as such the significant risks and areas of focus outlined below are indicative at this stage and may change to reflect guidance and activity within the Council and generally in the sector. We therefore ask the Audit Committee to review the risks and reflect on:

Generic Significant risk	Brief description
Management override of controls	<ul style="list-style-type: none">■ Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
Fraudulent revenue recognition	<ul style="list-style-type: none">■ We do not consider this to be a significant risk for Councils as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Summary of progress of the audit planning process

Local Focus Areas	Brief description
Reserves and financial position	<ul style="list-style-type: none">■ There are significant financial pressures facing the Council. General reserves were £29.56m in 2010/11 and are expected to reduce to £20.9m by the end of March 2016 and £18.4m by March 2017. There are also additional budget pressures in the current year at Month 7 of £4 million, primarily due to the continuing demand pressures in Children's Social Care. The Council plans to take actions to bring this budget into balance.■ Business rate appeals are also creating further pressure on the financial position, the latest Budget Proposal Document recognises that the Council's share of the collection fund deficit will increase from £6.4m at the end of March 2016 to £22.2m in March 2017. Although the full impact is partially off-set by expected growth as a consequence of the Business Rate Retention Scheme this creates an additional pressure of £12.6m for the 2016/17 budget.■ Financial pressures increase the risk of manipulation of the financial statements and we will also carefully consider the implication for our VFM work programme when the methodology is finalised.
Accounting for Infrastructure assets in 2016/17	<ul style="list-style-type: none">■ A major change to the 2016/17 statements is the application of LAAP Bulletin 100 adopting the measurement requirements of the Transport Code. Assets will be revalued from Historic Cost to Depreciated Replacement Cost supported by detailed Asset Management Records. These are required to provide the detail to support the new valuation a significant change to the arrangements. Ensuring that the necessary records are in place during early 2016 is important to ensure delivery of this change. We will continue to monitor progress in setting up the systems to support this change.

Next steps

We will provide a draft Annual Plan once we have received final guidance for the 2015-16 audit process. We will share this with management for comment and provide the document to the Audit Committee.



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