Leeds City Council 2022-23 Audit Plan

Year ending 31 March 2023

16 May 2024

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

1. Key matters

National context

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, a rise in interest rates, higher agency costs and increases in supplies and key services, such as adult social care and children's services.

Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions such as integrating skills with employment provision and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling. Overall, Local Government continues to operate in a very challenging environment, both financially and operationally.

Local context:

The Council's financial performance 2022-23

The Council approved a net budget for 2022-23 of £521.9m which included a Council Tax increase of 2.99% (Council Tax 1.99% and Adult Social Care precept 1.00%). To deliver this balanced budget, the Council identified a savings requirement of £16.5m for 2022-23. Whilst the Council set a balanced budget for 2022-23, this came under significant pressure from the impact of inflation, particularly in relation to energy costs and higher staff pay awards than the Council had budgeted for, and in the demand for some of the services, such as Children's services. These pressures are similar to those faced by other local authorities.

The outturn position for 2022-23 was an overspend of £12.4m (2.4% of the Council's Net Revenue Budget) requiring the Council to draw on its Strategic Contingency reserve. Most of the Council's directorates overspent in 2022-23, but the largest overspend by some margin was in the Children and Families directorate. The outturn position for this directorate was an overspend of £16.9m. Of the total planned savings for 2022-23 of £16.5m, the Council delivered savings of £11.2m, or 68% of those planned. The Council's Strategic Contingency Reserve, which stood at £37.5m on 1 April 2022, ended the year with a balance of £19.9m at 31 March 2023.

Looking ahead – the Council's 2023-24 budget

For 2023-24, the Council set a balanced budget with net revenue expenditure of £573.4m requiring a Council Tax increase of 4.99% (Council Tax 2.99% and 2.00% for the Adult Social Care precept). Savings required to be delivered during the year total £58.6m to achieve a balanced outturn position. The most recent financial update report presented to Executive Board on 17 April 2024 (2023-24 Month 11 Provisional Outturn Report) forecasts a balanced year end position for the General Fund after the use of £14.7m from the Merrion House reserve and recognition of a refund of £17.7m from the West Yorkshire Combined Authority (WYCA) in relation to amounts collected for the Transport Fund which are no longer required.

Key matters

Dedicated Schools Grant (DSG)

As noted in our Auditor's Annual Report for 2022-23, the Council's forecast DSG deficit from 2024-25 may place significant further pressure on the Council's financial position if the statutory override is not extended beyond March 2026.

The DSG is a ring-fenced budget which is allocated in blocks; schools, early years and high needs. The DSG is allocated in four blocks: schools, high needs, early years and central schools services. At the start of 2022-23 the in-year DSG budget was assumed to balance whilst the ring fenced DSG reserve had a surplus balance of £0.1m. During 2022-23, however, there was a net movement of £8.9m. The largest component of this was an underspend of £6.8m against the high needs block reflecting lower than forecast demand as well as some cost-saving measures. This resulted in a surplus balance of £9.0m to be carried forward into 2023-24.

However, the Council forecasts a cumulative DSG deficit over the medium term, reaching £17.7m in 2026-27 and £31m by 2027-28, with an in-year overspend of between £0.8m and £17.7m per year if no action is taken. Most of the expected forecast overspend is on the high needs block and the Council is currently reviewing the options available for managing this.

A statutory override has been provided by the Government which currently allows the DSG deficit to be carried over as a negative reserve without the need to draw on the general fund reserve. This override is time-limited and was due to end in March 2023 but in recognition of the national challenge in relation to DSG deficits, was extended for a further three years to March 2026. It is unclear if the statutory override will be extended beyond March 2026. If the statutory override is not extended or financial support is not forthcoming to reduce the projected financial deficit, a substantial deficit would be a further significant pressure for the Council to manage within already stretched resources.

External Audit 2022-23 and the Backstop

In our Audit Progress Report and Implications of the Proposed Backstop on the 2022-23 Audit presented to the Corporate Governance and Corporate Governance and Audit Committee (CGAC) on 12 February 2024, we noted that audit work would only commence on the Council's 2022-23 financial statements if the audit of the prior year, 2021-22 had been completed and our audit opinion issued by 31 March 2024. We are pleased to note that with the co-operation and significant support of the finance team, the 2021-22 audit was completed and concluded on 27 March 2024.

We have now commenced work on the Council's financial statements audit for 2022-23, using a dedicated audit team which we have ring fenced for the audit of Leeds City Council only. We plan to have completed audit work by the 'backstop' deadline of 30 September 2024.

To ensure the 2022-23 audit progresses efficiently and slippage does not arise, we proposed a set of key milestones for the Council's Chief Financial Officer to consider in our report to CGAC and have reproduced these below:

- Working papers relating to the 2022-23 audit to be uploaded to Inflo by 1 April 2024. Given the Council prepared the draft 2022-23 accounts in July 2023, we would expect the supporting working papers to be ready for audit. All working papers should agree to the accounts and the Council's general ledger (FMS), be easy to follow, have supporting build-up of figures and have been reviewed and signed off by a senior individual independent of the preparer. *Update: the majority of working papers have been uploaded to Inflo by the agreed date and audit work has commenced. Exceptions relate to where the auditor needs to observe the download of information or a later date for submission has been agreed.*

Key matters

External Audit 2022-23 and the Backstop continued

- Key finance staff to be available to respond to queries in a timely manner, be available for meetings as required to discuss issues and give precedence to the audit process. The Council's finance resources should be planned to ensure the 2022-23 audit process is given sufficient priority given the competing demands of 2023-24 closedown and the implementation of the new ledger. We understand the Chief Financial Officer is reviewing both staffing resources and procedures to ensure that the priorities of supporting the 2022-23 audit process, closing down the 2023-24 accounts and the successful implementation of the new financial ledger are all delivered within planned timescales. *Update: we continue to liaise with the finance team on staff availability, this will be key to ensure we are able to progress our audit work for 2022-23. We understand the Council is currently recruiting for a Head of Finance position to strengthen its existing team and has secured an experienced contractor to provide additional support to the finance team for the 2022-23 audit. This is in addition to the two additional financial management resources (Senior Financial Manager and Finance Manager) that have been added to the existing team from August 2023*
- At all times, priority is given by the finance team, management and other officers involved in the audit process across departments (for example the Council's valuers) to respond promptly to audit queries and responses for information. *Update: our audit work at the moment is primarily on planning procedures with limited requests but we have noted no issues. Once substantive procedures commence there will be increased audit requests for the Council to manage*
- Audit progress is in accordance with the key milestones as set out in the audit timeline. *Update: currently on track*
- Fortnightly meetings commencing April 2024 to monitor progress and escalate issues should this arise. *Update: weekly meetings take place and are diarised.*

Key matters

Our Responses on key Council matters

- As a firm, we are absolutely committed to high standards and continually improving audit quality and financial reporting in the local Council sector. Our proposed work and fee, as set out further in this Audit Plan, has been agreed with the Chief Financial Officer
- We will continue to review the Council's financial position and performance through our regular discussions with the Chief Financial Officer, including budget monitoring, anticipated revisions to the MTFS, management of general fund and useable reserves and the DSG position
- We will continue to discuss Council's strategic direction and associated challenges with the Council's senior officers through our regular liaison meetings
- We will continue to consider your arrangements for managing and reporting your financial resources as part of our 2022-23 audit of your financial statements
- Our value for money work (VFM) has been concluded and we reported our findings in our 2022-23 Auditor's Annual Report to the Corporate Governance and Audit Committee on 27 November 2023. Our VFM work considered your arrangements relating to financial sustainability, governance and improving economy, efficiency and effectiveness
- We will follow up progress in implementing the actions agreed in respect of matters identified in 2021-22 audit work relating to the financial statements audit. Our follow up of recommendations made as part of our 2021-22 review of your VFM arrangements was included in our 2022-23 Auditor's Annual Report
- We will continue to provide the Corporate Governance and Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators. We will also participate in providing the Corporate Governance and Audit Committee training sessions as requested
- We will continue to hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, discuss topical issues with our technical specialists and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We continue to identify a significant risk in regard to the management override of controls (see page 10 which is our key response to this risk)
- We will continue to update the Chief Financial Officer on progress in completing the 2022-23 audit and report to the Corporate Governance and Audit Committee should there be any slippage in undertaking our work at each meeting.

2. Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Leeds City Council ('the Council') for those charged with governance.

Respective responsibilities

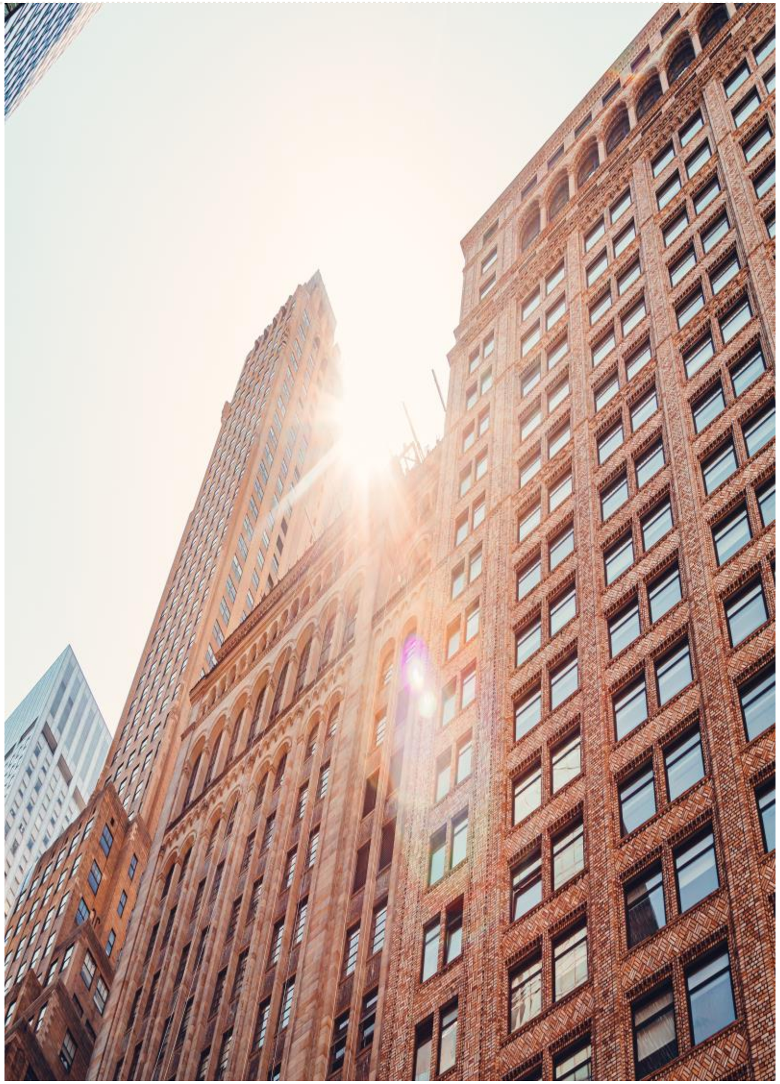
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments Limited (PSAA), the body responsible for appointing us as auditor of the Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council 's financial statements that have been prepared by management with the oversight of those charged with governance (the Corporate Governance and Audit Committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved. Our value for money work has been concluded and we reported our findings in our 2022-23 Auditor's Annual Report to the Corporate Governance and Audit Committee on 27 November 2023.

The audit of the financial statements does not relieve management or the Corporate Governance and Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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



2. Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls
- Closing valuation of land and buildings (including council dwellings)
- Valuation of the net pension fund balance.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £28,432k (PY £26,898k) for the Council, which equates to 1.3% of your draft in year gross expenditure in cost of services for the Council.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. As part of our risk assessment, we have considered the impact of unadjusted prior period errors.

Clearly trivial has been set at £1,400k (PY £1,345k) for the audit.

We have based our materiality calculations on your draft 2022-23 financial statements.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money identified two potential risks of significant weakness at the planning stage.

The first relates to the Council's financial sustainability. The second relates to the Council's arrangements relating to, and engagement during, the external audit process. Both issues were also noted last year, 2021-22.

We wanted to ensure our VFM audit work was reported on a timely basis. Our 2022-23 value for money work was completed during July to November 2023.

We reported our findings in our 2022-23 Auditor's Annual Report to the Corporate Governance and Audit Committee on 27 November 2023.

Our VFM work considered your arrangements relating to financial sustainability, governance and improving economy, efficiency and effectiveness.

We will continue to keep our VFM risk assessment under review and report any other appropriate matters up until we issue our 2022-23 audit opinion.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this Plan.

Audit logistics

Our planning and interim audit work will take place during April and our final accounts audit work will take place during May to September 2024.

Our key deliverables are this Audit Plan, our Audit Findings (ISA260) Report (expected in September) and our Auditor's Annual Report on our VFM work (issued in November 2023).

Our proposed fee for the audit will be £295,604 (PY: £330,354) for the Council, subject to the Council delivering a good set of financial statements and working papers. More detail analysis of our fee is included at section 10.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

3. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Risk of fraud in revenue recognition and expenditure - rebutted	**Revenue** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including at the Council, mean that all forms of fraud are seen as unacceptable. **Expenditure** Whilst not a presumed significant risk we have had regard to Practice Note 10 (Audit of financial statements and regularity of public sector bodies in the United Kingdom). Having considered the nature of the expenditure streams at the Council, we have determined that the risk of fraud arising from expenditure recognition can be rebutted, because: • there is little incentive to manipulate expenditure for a Council where services are provided to the public through taxpayers funds • Covid -19 funding has been provided for additional expenditure and loss of income in prior years • the culture and ethical frameworks of local authorities, including at the Council, mean that all forms of fraud are seen as unacceptable.	As we do not consider this to be a significant risk for the Council, we will not be undertaking any special audit work in this area other than our normal audit procedures which include: **Accounting policies and systems** • Evaluate the Council's accounting policies for recognition of income and expenditure for it's material income and expenditure streams and compliance with the CIPFA Code • Update our understanding of the Council's business processes associated with accounting for income and expenditure. **Fees, Charges and other service income** • Agree, on a sample basis, income and year end receivables from other income supporting evidence. **Taxation and non specific grant income** • Income for national non –domestic rates and council tax is predictable and therefore we would conduct substantive analytical procedures • For other grants we will sample test items for supporting evidence and check the appropriateness of the accounting treatment in line with the CIPFA Code. **Expenditure** • Agree, on a sample basis, non pay expenditure and year end payables to supporting evidence • Undertake detailed substantive analytical procedures on pay expenditure. We will also design and carry out appropriate audit procedures to ascertain that recognition of income and expenditure is in the correct accounting period, for example, undertaking cut off testing.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

3. Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	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. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. 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.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied and made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide engagement teams with sufficient evidence to support their judgements and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

3. Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Closing valuation of land and buildings, including Council dwellings	The Council re-values its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (c£6,651m) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value at the financial statements date, where a rolling programme is used. We therefore identified the closing valuation of land and buildings, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation experts • discuss with the valuers the basis on which the valuation was carried out • challenge the information and assumptions used by the valuers to assess completeness and consistency with our understanding • engage our own auditor's expert valuer to assess the instructions issued to the Council's valuers, the Council's valuers' report and the assumptions that underpin the valuation • test revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end • consider, where the valuation date is not 31 March 2023 for assets valued in year, the arrangements management has used to ensure the valuation remains materially appropriate at 31 March 2023.

'In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.' (ISA (UK) 315)

3. Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund balance	The Council's prior year pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability for 2021-22 was considered a significant estimate due to the size of the numbers involved (c£1,514m) in the Council's balance sheet and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund balance as a significant risk, which was one of the most significant assessed risks of material misstatement. The Council is an admitted body of the West Yorkshire Pension Fund. We understand from our discussions with management that West Yorkshire Pension Fund will be in a surplus position as at 31 March 2023, following the recent triennial valuation process. This situation gives rise to a net pension asset rather than a net pension liability. As a result of this, the Council (in common with a number of local authorities in 2022-23) will need to consider the potential impact of IFRIC 14 on the Authority's IAS 19 accounting. IFRIC 14 is the accounting principle that limits the recognition of a defined benefit asset in the financial statements.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net balance is not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • assess the accuracy and completeness of the information provided by the Council's to the actuary to estimate the liability • test 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 • undertake procedures to confirm the reasonableness of the actuarial assumptions including the net pension balance, by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • evaluate the triennial pension fund valuation outcomes and assess the reasonableness and prudency in that overall valuation through our audit approach as applicable. Audit approach to be determined upon relevancy. • undertake procedures as relevant, if there is a movement from a net pension liability to a net pension asset and ensure that movement is materially correct, and any recognition in Council's financial statements is in line with applicable accounting standards (including IFRIC 14) • obtain assurances from the auditor of the West Yorkshire 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.

4. Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2022-23 financial statements, consider and decide upon any objections received in relation to the 2022-23 financial statements
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act)
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'.

All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

5. Progress against prior year audit recommendations

There were three recommendations made in our 2021-22 Audit Findings (ISA260) Report. We have followed up these recommendations below. Please note, in addition to the recommendations below, there were some specific recommendations raised as part of our IT Report last year on IT general controls, these have been followed up separately in our IT Report for 2022-23 and presented to the Corporate Governance and Audit Committee on 27 November 2023.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	**1. Valuation of land and buildings:** The Council moved its valuation date from 30 September to 1 January in 2020-21. This approach requires an estimation from 1 January to 31 March at the year end to ensure there has not been a material change in asset values. There is a risk that asset values are not correctly valued in the financial statements. We recommended management should revise its valuation date for the valuation of fixed assets from the current 1 January, to the year end, 31 March each year.	Management response: As agreed in advance of the 2021-22 accounts process the Council again consulted with its valuers on the practicality of moving the valuation date. The valuers' view was that it would not be possible to produce reliable valuations using robust data as at the 31st March date within the timescales required for the draft accounts. Input data which is needed for valuations is not available for some time after any given valuation date, and the Council has above £5bn of assets held at current value. Consequently, the Council has continued to use a 1st January valuation date. Update May 2024: Prior to the 2022-23 accounts process the Council again discussed with its valuers the practicality of moving the valuation date for its land and buildings. The conclusion remained that it would not be possible to produce robust valuations for a portfolio of the scale that the Council holds within the timescales required for production of the draft accounts, if the valuation date were to be moved to 31st March. Looking ahead to 2024-25, following recent consultations from the Government and CIPFA there is the potential for the deadline for production of the draft accounts to be extended and for valuation requirements to be amended. The Council will review its valuation date for 2024-25 once the outcome of these consultations is known.
Partial	**2. Working Papers:** As last year, whilst working papers show the build up of the numbers in the accounts, there is often a gap in reconciling these to the FMS system. This requires additional work to agree or further requests to management for additional information. Without appropriately reconciled working papers to the FMS system, the audit process will take longer than necessary. Management should introduce a review process where working papers produced are reviewed by someone independent of the preparers to ensure they agree to the accounts and have been reconciled to FMS as a quality check and signed off to evidence review before being uploaded for auditor access.	**Management response:** Agreed. Working papers need to be subject to review. The requirement to prepare appropriate working papers has been reinforced within the Financial Management function and where necessary changes have been made to ensure that the reconciliation back to FMS is much clearer. These improvements have been recognised informally by Grant Thornton staff currently undertaking the audit. Update May 2024: We have noted an improvement to working papers considered to date. Once the 2022-23 audit is fully underway, we will be in a better position to take a more informed view.

5. Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	3. Asset Classification: Our review of 15 items across the Council's property estate identified an asset which had been incorrectly categorised: • St George House in the City Centre (£8.2m) had been classified as other land and buildings in the draft accounts whereas it had been reclassified as an investment property by the Council's valuers. This is a classification issue only as the valuation was undertaken on a fair value basis. There is a need for management to ensure that assets are correctly categorised at the year end.	Management response: Agreed, the valuation of the asset was carried out on a fair basis and so this is a classification issue only and not a valuation error. A review process is in place.

6. Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
1	**Determination** We have determined the planning financial statement materiality based on a proportion of the gross expenditure in cost of services of the Council for the financial year. We have determined planning materiality to be £28,432k (PY £26,898k) for the Council, which equates to 1.3% (PY 1.3%) of your draft 2022-23 gross expenditure in cost of services.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements.
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £25,000 (PY £25,000).

6. Our approach to materiality

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality. We have based our materiality calculation on your 2022-23 draft accounts. We will keep materiality under review during the course of our audit work.
4	**Other communications relating to materiality we will report to the Corporate Governance and Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Corporate Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1,400 (PY £1,345k) for the Council. If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Governance and Audit Committee to assist it in fulfilling its governance responsibilities.

6. Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality area	Amount £000	Qualitative factors considered
Materiality for the financial statements	28,432	We have determined materiality at 1.3% of gross expenditure in cost of services based on your draft 2022-23 financial statements. We consider this as the most appropriate criteria given stakeholders interest in the Council delivering its budget.
Performance materiality	19,902	Assessed to be 70% of financial statement materiality.
Trivial matters	1,400	This equates to 5% of materiality. This is our reporting threshold to the Corporate Governance and Audit Committee for any errors identified.
Materiality for senior officer remuneration disclosures	25	The senior officer remuneration disclosures in the Financial Statements have been identified as an area requiring specific materiality due to its sensitive nature.

7. IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope at audit planning stage. Based on the financial statement audit approach we have performed the level of assessment required. Our findings were reported in our detailed IT Report to the Corporate Governance and Audit Committee on 27 November 2023. We will keep our work under review as the accounts audit progresses and will update our understanding if there are additional IT systems within the scope of the audit. We will report any further matters (as applicable) in our ISA(UK) 260 report.

IT system	Audit area	Planned level IT audit assessment
Financial Management System (FMS)	Financial reporting	• Detailed ITGC assessment (design and operating effectiveness) • Application controls assessment (Revenue, Procurement, Payroll) • No reliance to be placed on the operating effectiveness of IT controls
Academy (Revenues & Benefits system)	Council Tax, Business Rates, Benefits	• Detailed ITGC assessment (design and operating effectiveness) • Application controls assessment (Interface to finance system) • No reliance to be placed on the operating effectiveness of IT controls
SAP Payroll	Payroll	• Detailed ITGC assessment (design and operating effectiveness) • Application controls assessment (Interface to finance system) • No reliance to be placed on the operating effectiveness of IT controls
Civica CX	Housing rents	• Detailed ITGC assessment (design and operating effectiveness) • Application controls assessment (Interface to finance system) • No reliance to be placed on the operating effectiveness of IT controls

8. Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office (NAO) issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Potential Significant Weaknesses

Our risk assessment regarding the Council's arrangements to secure value for money identified two potential risks of significant weakness at the planning stage of our audit:

- Financial sustainability - due to the significance of the financial pressures and challenges faced by the Council, there is a risk that the Council may not be able to deliver its services within the financial resources available to it
- Governance: our audit work has noted for a number of years that the Council's arrangements relating to the preparation and provision of quality working papers to support the external audit of the Council's accounts needs improvement in addition to the timely engagement and responses to external audit requests for information and queries.

Both of these issues were relevant and reported last year (2021-22) and have been elevated as part of our 2022-23 value for money audit procedures.

In order to ensure our VFM audit work continued to be performed on a timely basis, our value for money work was completed during July to November 2023. We reported our findings in our 2022-23 Auditor's Annual Report to the Corporate Governance and Audit Committee on 27 November 2023, highlighting key recommendations in relation to the two issues above.

We will continue to keep our VFM risk assessment under review and report any other appropriate matters up until we issue our 2022-23 audit opinion.

9. Audit logistics and team

Planning and risk assessment
April 2024

Year end audit
May to September 2024

CGAC
24 June 2024
Audit Plan

Year end audit
May to September 2024

CGAC
30 September 2024
Audit Findings (ISA260) Report

30 September 2024
2022-23 Audit Opinion target date as per the 'backstop'

30 September 2024
Final Auditor's Annual Report on VFM arrangements (initially reported in November 2023)

Gareth Mills, Key Audit Partner & Engagement Lead

Gareth leads our relationship with you and takes overall responsibility for the delivery of a high-quality audit, ensuring the highest professional standards are maintained and a commitment to add value to the Council.

Perminder Sethi, Engagement Senior Manager

Perminder plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues.

Andrew McNeil, Engagement In-charge

Andrew assists in planning, supervising and delivering the audit fieldwork liaising with your finance teams, ensuring that the audit is delivered effectively and efficiently. Andrew also co-ordinates with the audit team on delivery of fieldwork.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

10. Audit fees and updated Auditing Standards, including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for the Council to begin with effect from 2018-19. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022-23 audit. For details of the changes which impacted on years up to 2021-22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022-23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure and IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for a similar Council of your size, we estimate an initial increase of £6,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing.

The other major change to Auditing Standards in 2022-23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022-23, is detailed overleaf and has been agreed with the Chief Financial Officer

Audit fees

	Actual Fee 2021-22 £	Proposed fee 2022-23 £
Leeds City Council	£330,354	£295,604
Total audit fees (excluding VAT)	**£330,354**	**£295,604 Note 1**

Note 1

See detailed analysis on page 24.

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis:

PSAA Scale fee for 2022-23	£196,104
Enhanced audit procedures for Property, Plant and Equipment, including the use of an Auditor's Expert on valuations	£5,000
The revised Value for Money (VfM) approach, introduced under the new NAO Code in 2020-21 (after the 2017 PSAA tender)	£20,000
Local risk factors relating to VFM work and financial pressures facing the Council (as noted in our 2022-23 Auditor's Annual Report)	£10,000
Increased audit requirements relating to ISA 540 Revised - Auditing Accounting Estimates and Related Disclosures	£7,500
Enhanced audit procedures for journals and grants testing, given the risk of management override of controls	£7,000
Increased audit requirements of ISA 315 Revised - identifying and assessing the Risks of Material Misstatement	£6,000
Local risk factor – impact of the Council's ledger system and resulting working papers (as noted in previous audit reports)	£30,000
Enhanced audit procedures for Infrastructure assets	£2,500
Independent Partner review given the 'major' audit risk profile of the Council	£1,500
Additional work relating to Pensions Triennial valuation and the calculation of the net asset ceiling at 31 March 2023	£5,000
Performing sufficient and appropriate audit work on housing benefit related transactions (as we do not audit the HB claim)	£5,000
Total proposed audit fees 2022-23 (excluding VAT)	£295,604

Note: All variations to the scale fee will need to be approved by PSAA

11. Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

No other services provided by Grant Thornton were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

12. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management / those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud (deliberate manipulation) involving management and / or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Grant Thornton

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