

Informing the audit risk assessment for Leeds City Council 2023/24

Draft Responses Proposed
by Management for review
by the Committee



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 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 your business or any 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.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Leeds City Council's external auditors and Leeds City Council's Corporate Governance and Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Corporate Governance and Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Corporate Governance and Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Corporate Governance and Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Corporate Governance and Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Corporate Governance and Audit Committee and supports the Corporate Governance and Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Local Authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Leeds City Council's management. The Corporate Governance and Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2023/24?	For 2023/24, the most significant impact on the Council's financial position came from the increased costs of providing childrens social care services, where both the numbers of children looked after and the unit costs of care continued to increase. The overspend in this area was partly funded by the use of earmarked reserves.
2. Have you considered the appropriateness of the accounting policies adopted by Leeds City Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	The council's accounting policies are in line with those recommended in CIPFA's Code of Practice on Local Authority Accounting. The council has considered whether any changes were necessary for 2023/24 due to changes in Code requirements or for any other reasons, and has not changed any of its policies.
3. Is there any use of financial instruments, including derivatives? If so, please explain	<p>Given that the definition of financial instruments is wide and includes for example trade debtors and creditors, the answer to the first part of this question would always be yes for all local authorities.</p> <p>The Council does not have any derivatives or any financial instruments with separable embedded derivatives.</p>
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	We are not aware of any.

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	We are not aware of any general changes in circumstances which would affect the overall asset portfolio. A full review for potential impairment of individual assets is carried out as part of the normal closedown process and working papers are provided.
6. Are you aware of any guarantee contracts? If so, please provide further details	We are not aware of any financial guarantee contracts.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	None to our knowledge. The Council believes that it has made appropriate reserves in its accounts in respect of its known and unknown potential liabilities.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Leeds City Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Council is party to a regional framework agreement and most solicitors used by the Council are sourced from that framework, and in accordance with the Council's Contract Procedure Rules. In exceptional cases where the complexity and niche nature of the work requires, specialist solicitors who are not on the framework are selected. Some work in the Housing Disrepair team is contracted out to external solicitors. This legal work may remain open for more than one financial year.

General Enquiries of Management

Question	Management response
<p>9. Have any of the Leeds City Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p>	<p>Neither Legal Services nor Procurement & Commercial Services are aware of any such reports. The Council includes a standard clause in its procurement contracts requiring contractors to notify the Council immediately if they have any reason to suspect that fraud has occurred or is likely to occur.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Please see reply to Q8 above – the same is the case for the use of Counsel for Social Care Children's work who are usually selected from a regional framework agreement, where specialist skills, knowledge of experience are needed. That framework came to an end in August 2023, and a new framework is currently out for tender. In addition, there is a framework for the use of Counsel in Planning and Highways matters; and from time to time the Council will instruct Counsel on other matters across Legal Services, for example in relation to adult social care matters or in general litigation, where there is no framework agreement in place. In these circumstances, arrangements with Counsel are entered into in accordance with the Council's Contract Procedure Rules.</p> <p>In other areas, the Council uses specialist advisers to inform its Treasury management activities on an ongoing basis.</p> <p>The Council does from time to time employ consultants to provide advice in relation to specific projects. These are appointed in accordance with Contract Procedure Rules.</p>
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>Financial assets have been reviewed for expected credit loss provisions as part of the closedown process. Working papers will be provided during the audit.</p>

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Corporate Governance and Audit Committee and management. Management, with the oversight of the Corporate Governance and Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Corporate Governance and Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Leeds City Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Corporate Governance and Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Corporate Governance and Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Corporate Governance and Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Leeds City Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has Leeds City Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Local Authority's risk management processes link to financial reporting?</p>	<p>The Committee is kept informed of the various processes the Council has in place to prevent and detect fraud. This is ongoing throughout the year. The assurance that the financial statements are free from material misstatement due to fraud is a consequence of the assurances gained from these ongoing processes.</p> <p>Please see the response to Q6 below for the process for identifying and responding to the risk of fraud.</p> <p>Risk management is very much at the heart of the Council's approach to financial planning and in-year budget monitoring. The annual budget and the assessment as to the robustness of estimates and adequacy of reserves is supported by a budget risk register which is reviewed by the Finance Performance Group, with new in-year risks identified where appropriate. Additionally, each council directorate risk register includes a risk on failing to balance their in-year budget. The directorate risk registers are updated and reported quarterly. The Resources directorate risk register includes a risk on Fraud and Corruption: Internal or external fraud / corruption has a significant impact on the Council. This risk is reviewed and updated by Internal Audit, and any issues relating to this risk can be escalated to CLT for discussion.</p> <p>Our regular financial monitoring reports to Executive Board also enable new risks which have a real or potential financial impact to be identified. In addition, the following risks are identified on the Council's corporate risk register and reviewed on a quarterly basis by the Council's Corporate Leadership Team:</p> <ul style="list-style-type: none"> - Council's financial position goes into significant deficit in the current year resulting in reserves (actual or projected) being less than the minimum specified by the council's risk-based reserves policy - Failure to address medium term financial pressures in a sustainable way.

Fraud risk assessment

Question	Management response
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The council's view is that invoices for goods and services (i.e. non-pay expenditure) is the transaction type most at risk from attempted fraud. However the council is satisfied that it has controls in place to minimise this risk, and these are subject to periodic review by Internal Audit. We regularly highlight to staff the risks of payments to fraudulent suppliers via the most appropriate communication to remind staff to remain vigilant and to follow established processes.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Leeds City Council as a whole, or within specific departments since 1 April 2023? If so, please provide details</p>	<p>There are no specific instances that we are aware of that would materially affect the financial statements. We report all activity, including referrals received, by type of concern being raised, to the CGAC on a twice yearly basis.</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>There is an annual assurance report to Corporate Governance and Audit Committee on the Risk Management arrangements within the Council.</p> <p>Internal Audit are custodians of the counter fraud policy framework and have corporate oversight of the fraud risk. Internal Audit are responsible for receiving reports of fraud and corruption and other concerns under the remit of the Whistleblowing Policy. There are some other areas with responsibility for counter fraud activity within specialist teams and functions. Assurances around activities and outcomes in these areas are reported to Corporate Governance and Audit Committee, through the twice yearly counter fraud update report.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Leeds City Council where fraud is more likely to occur?</p>	<p>None that haven't previously been reported to those charged with governance.</p> <p>We have no concerns that there are areas where there are control weaknesses as such that would result in a fraud materially affecting the accounts. However, the techniques used to commit fraud are continually evolving as technology and AI advance therefore Internal Audit are reviewing our counter fraud and corruption strategy to drive a counter fraud culture across the authority where everyone has an awareness of fraud risks. This should increase the council's ability to prevent and detect fraud.</p> <p>We have an understanding of the areas susceptible to fraud, and maintain a watching brief to keep appraised of new and emerging fraud risks.</p>

Fraud risk assessment

Question	Management response
<p>6. What processes do Leeds City Council have in place to identify and respond to risks of fraud?</p>	<p>The council has an established risk management process that directs risk owners to put appropriate mitigating actions in place. This includes having several teams across the council that undertake counter-fraud work in specific areas where there is risk of fraud.</p> <p>The risk-based Internal Audit Plan includes resource that is allocated to proactive and reactive counter fraud work. The risk of fraud is considered within the scope of all planned audit work.</p> <p>Internal Audit networks across the core cities and South and West Yorkshire regularly liaise on fraud risks. Fraud awareness training is available for all staff.</p> <p>Counter-fraud policies and procedures are in place and are regularly reviewed.</p> <p>There is an established whistleblowing policy through which staff and members of the public may raise their concerns, and a procedure for those concerns to be investigated and addressed.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Leeds City Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p><u>Existence of controls</u></p> <p>The Annual Governance Statement summarises the high level internal controls and assurance arrangements. No significant concerns have been raised as part of this process.</p> <p>The Internal Audit Planning process uses a risk-based approach and gives coverage of key systems across the organisation. The work undertaken by Internal Audit throughout the year and their overall opinion at the year-end provides assurance that the Council has overall satisfactory internal control processes in place.</p> <p><u>Review of controls</u></p> <p>There is a thorough process for producing the Annual Governance Statement based on a suite of assurances from individual reviews that cover the key areas of internal control. Internal Audit has a role in reviewing the effectiveness of internal control. In addition we have implemented a recommendation tracker to establish the degree of implementation of recommendations raised within audits and investigations. The Internal Audit function is subject to an external review every 5 years and this has confirmed that Internal Audit conforms to the Public Sector Internal Audit Standards</p> <p>Internal Audit coordinate participation in the NFI data matching exercise. Internal Audit regularly communicate the risks of fraud through various communication channels to make staff aware of any emerging fraud risks and how to report concerns. Please see the response to Q6 for additional controls in place in relation to fraud.</p> <p>The council is not aware of any areas where there is potential for override of system controls and there are adequate controls to safeguard the integrity of financial reporting.</p>

Fraud risk assessment

Question	Management response
8. Are there any areas where there is potential for misreporting? If so, please provide details	None that the council including Internal Audit are aware of.
<p>9. How does Leeds City Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>The council's values encompassing how the council works are</p> <ul style="list-style-type: none"> • Being open, honest and trusted • Treating people fairly • Spending money wisely • Working as a team for Leeds • Working with all communities <p>The values are embedded within the Best City Ambition and the Employee Code of Conduct and committee receive an Annual Assurance report from HR on these matters. Further communication is via the appraisal process, meetings and established communication channels. Professional ethics and standards are in place where relevant. The Whistleblowing Policy is in place which adheres to best practice including the provision for reporting concerns and contact details for External Audit. The Whistleblowing reporting channels are available for members of staff to raise their concerns, on the phone, by email, by letter. This is highlighted to staff via regular communications throughout the year (e.g. World Whistleblower Day) and in the Fraud Awareness Training. The Whistleblowing Policy highlights the types of issues that should be reported and contact details for fraud relating to areas outside Internal Audits remit. In addition to this the council's position in relation to anti-bribery and anti-money laundering is set out in associated policies. All these polices are also published on the Fraud and Corruption toolkit on Insite.</p>
	<p>Any significant reported issue would be included in the regular Internal Audit update to the committee at the appropriate stage of any investigation. There have been no significant issues that would warrant any disclosure/having a material impact on the accounts.</p>

Fraud risk assessment

Question	Management response
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>The Council considers that the highest risk is from direct pecuniary advantage via fraudulent transactions, rather than the potential to misrepresent financial results. The relevant posts are those that have been identified for declaration of interests and have been reviewed with Chief Officers. These are reviewed on a yearly basis, and the procedures and controls in place are reported to the Committee within the annual assurance report from HR.</p> <p>The potential for fraudulent material misrepresentation of the financial outturn position of services is considered to be a lower risk. In addition to the Officers Code of Conduct and professional standards being in place, the risk is mitigated by the overall budget monitoring process and outturn reporting process which involve review within directorate finance teams and collective oversight by Financial Performance Group. Access to input transactions to the ledger is restricted to appropriate individuals.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>The council is not aware of any such instances. These are reviewed as part of the biannual NFI exercise and through the yearly register of interests and gifts and hospitality review by directorate management teams.</p> <p>Please see the response in the Related Parties section for the general controls in place.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Corporate Governance and Audit Committee?</p> <p>How does the Corporate Governance and Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>All areas of counter fraud activity, including outcomes are reported to Corporate Governance and Audit Committee through the twice yearly Counter Fraud Update reports.</p> <p>Where weaknesses in the internal control environment limit the assurances that we are able to provide within the audit process, our updates provide additional information to the Committee to enable members to exercise oversight on a risk basis. Internal Audit's recommendation tracking and follow up audit process helps to ensure management address areas of particular risk.</p> <p>Counter fraud reports issued to service management include recommendations to address weaknesses in the control environment and these are subject to recommendation tracking as described above.</p> <p>The reporting of these outcomes to Corporate Governance and Audit Committee provides the committee with a source of assurance that the arrangements are effective.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Information on allegations made through the Whistleblowing Policy and outcomes are reported to the Corporate Governance and Audit Committee through Internal Audit's regular update reports. No allegation has been made that causes us concern over the integrity of the financial accounts.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>None that the Council including Internal Audit are aware of.</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Corporate Governance and Audit Committee, is responsible for ensuring that Leeds City Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Corporate Governance and Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Leeds City Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Local Authority's regulatory environment that may have a significant impact on the Local Authority's financial statements?</p>	<p>The Council has an in-house Legal Services team which advises officers and Members on matters relating to all of the Council's functions. In addition, Legal Services reviews all reports which Services present to the Council's Executive Board. These reports include provision for any legal implications. In addition, the Council's Monitoring Officer is under a duty to ensure the Council fulfils its statutory obligations and to report to Council on matters they believe are, or are likely to be, unlawful or amount to maladministration. The Monitoring Officer is also responsible for matters relating to the conduct of councillors, and for the operation of the Council's constitution. As part of the Monitoring Officer's responsibilities a review of the Constitution and Decision Making has been undertaken, which is done periodically as good practice. This was concluded in 2023/24 and will be implemented in the coming municipal year.</p> <p>We are not aware of any such changes to the Council's regulatory environment.</p>
<p>2. How is the Corporate Governance and Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Please see the response to Q1 above. In addition the committee receive a number of Annual reports which provide assurance that council functions and services have arrangements in place to meet relevant statutory and regulatory frameworks.</p>

Impact of laws and regulations

Question	Management response
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2023 with an on-going impact on the 2023/24 financial statements? If so, please provide details</p>	<p>During the 2023/24 financial year there were 3 alleged matters where judgement was found in favour of the Council in claims for Judicial Review, and another alleged non-compliance, where permission to bring an Application for Judicial Review against the Council was refused. There was no on-going impact on the 2023/24 financial statements from these matters.</p> <p>During the course of the financial year the Local Govt and Social Care Ombudsman made approximately 20 findings of fault where Education Health & Care needs assessments and/or Plans fell outside the statutory time limits. Ex gratia payments [approx. scale?] were made in respect of each finding, but there was no on-going impact on the 2023/24 financial statements from these matters.</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>Any such outstanding matters are considered for either inclusion or disclosure within the statement of accounts as appropriate.</p>

Impact of laws and regulations

Question	Management response
<p>5. What arrangements does Leeds City Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>Claims are identified as such when the Council receives notification of an allegation of negligence which has resulted in harm from Claimants, their solicitors or Councillors acting on their behalf. Most claims are initially managed in the Council's insurance section who assess the potential value in respect of costs and damages in conjunction with the Council's insurance actuaries. Legal Services receive other claims direct and then take instructions from the relevant department, for example competition, disrepair and private sector housing claims. The value of claims is assessed by reference to case law and the Judicial Studies Guidance. When claims become litigated the conduct of the litigation is managed within the Claims Litigation Team of the Council's Legal Services, or by external solicitors for outsourced claims. The Council's Legal Services is Lexcel accredited and therefore complies with industry standards best practice in terms of managing its legal work.</p>
<p>6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details</p>	<p>There have been no such reports.</p>

Related Parties

Matters in relation to Related Parties

Leeds City Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Leeds City Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Local Authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Local Authority, or of any body that is a related party of the Local Authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Local Authority's perspective but material from a related party viewpoint then the Local Authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question

1. Have there been any changes in the related parties including those disclosed in Leeds City Council's 2022/23 financial statements?

If so please summarise:

- the nature of the relationship between these related parties and Leeds City Council
- whether Leeds City Council has entered into or plans to enter into any transactions with these related parties
- the type and purpose of these transactions

Management response

The council's related parties fall into four broad groups, which are unchanged from previous periods :

- i) Government and other public sector bodies
- ii) Council members and their interests
- iii) Senior officers and their interests
- iv) Group entities

There have been numerous routine transactions during the year with the government and with other public sector bodies. Details of these and any transactions falling into other groups are covered as part of the normal closedown process and working papers are provided.

Related Parties

Question

2. What controls does Leeds City Council have in place to identify, account for and disclose related party transactions and relationships?

Management response

As required by legislation, the Council's procedures require both Members and senior officers to disclose any pecuniary interests. Registers of these interests are maintained and Members and senior officers are requested to review their disclosures annually, in addition to being required to disclose any new interests as they arise.

In compiling the related parties disclosure in the accounts, the two registers of interests are compared to the ledger to identify any transactions which have taken place with any entities or individuals which have been identified as related parties. A review is also undertaken to evaluate transactions during the year with the government and other public bodies for inclusion in the related parties disclosure where these are not required to be disclosed in other sections of the accounts. Transactions with group entities are reviewed and disclosed in the Group disclosure note.

The NFI matching exercise referred to in Q7 of the Fraud risk assessment section would help to detect any instances of non-disclosure of interests.

Related Parties

Question	Management response
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>The Council has in place arrangements for delegated decision-making to ensure that all transactions are approved at an appropriate level and with adequate recording and segregation of duties.</p> <p>Where a Member has a disclosable pecuniary interest they are precluded from taking any part in meetings or decisions related to their previously disclosed interest, unless an appropriate dispensation has been granted. The existence of the procedures described above ensure that the council is able to both identify where a Member has an interest, and take action to ensure that there is no participation in any decisions relevant to their interest.</p> <p>Senior officers are similarly precluded from involvement in decisions in which they have a disclosable interest. Furthermore the employee code of conduct precludes an officer from making any decision which is not in the best interests of the council and does not represent value for money.</p> <p>For 2023/24 all key and significant decisions were published on the council's website and are available for public inspection, scrutiny and challenge as part of the council's constitutional arrangements. This framework ensures that both the scope for related party transactions is minimal, and that disclosure is provided where any such transactions may have occurred.</p>

Related Parties

Question	Management response
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	The Council has in place arrangements for delegated decision-making to ensure that all transactions are approved at an appropriate level and with adequate recording and segregation of duties. All key and significant decisions during the year were published on the council's website and are available for public inspection, scrutiny and challenge as part of the council's constitutional arrangements.

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Leeds City Council will no longer continue?</p>	<p>The ongoing budget monitoring arrangements involve regular discussions between Financial Management staff and service managers to ensure that any known changes affecting future service delivery are reflected in financial projections.</p> <p>It should be noted that any change to the statutory services which a council is required to provide would require changes to legislation or regulations, which would be actively publicised by the government and would normally require consultation.</p>
<p>2. Are management aware of any factors which may mean for Leeds City Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>We are not aware of any such factors.</p>

Going Concern

Question	Management response
<p>3. With regard to the statutory services currently provided by Leeds City Council, does Leeds City Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Leeds City Council to cease to exist?</p>	<p>Leeds City Council expects to continue to deliver all of the statutory services which it currently delivers for the foreseeable future. There are no plans for Leeds City Council to cease to exist.</p>
<p>4. Are management satisfied that the financial reporting framework permits Leeds City Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Management are satisfied that the Council's accounts are required to be prepared on a going concern basis, and that this will provide a faithful representation of items within the financial statements.</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Corporate Governance and Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Corporate Governance and Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>The most material items which require estimation in the production of the accounts are the valuation of land and property assets, pensions assets and liabilities, heritage assets, the value of provisions for business rates appeals and insurance claims, and the value of bad debt / impairment provisions for local taxation and housing rents.</p>
<p>2. How does the Local Authority's risk management process identify and address risks relating to accounting estimates?</p>	<p>Risk management is a key part of the Council's approach to financial planning and in-year budget monitoring. The annual budget and the assessment as to the robustness of estimates and adequacy of reserves is supported by a budget risk register which is reviewed by the Finance Performance Group, with new in-year risks identified where appropriate. Our regular financial monitoring reports to Executive Board also enable new risks which have a real or potential financial impact to be identified. Those accounting estimates which have an impact on the council's financial standing and its spendable reserves are covered by this process.</p>
<p>3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>For land and property valuations, the council uses qualified valuers (both internal and external), and for pensions the council uses the actuaries appointed to the West Yorkshire Pension Fund. Both valuers and actuaries provide expert advice on the methods and assumptions to be used in their valuations, so that these are compliant with the accounting Code. The expert advice is reviewed by officers within the final accounts team.</p> <p>Provisions (for both liabilities and debtor impairment) are calculated by the relevant finance team, based on all available information for the relevant item or population. Methods used for debt impairment are in line with those required by the Code. Any changes to the annual Code are reviewed by the corporate finance team and advice is issued to directorate finance teams if any changes are potentially required.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
4. How do management review the outcomes of previous accounting estimates?	<p>Explanations are requested for any major year-on-year changes in the valuation of land and property assets to determine whether there is any indication of errors in previous valuations. The pension fund actuary provides explanations for year-on-year changes, which are reviewed. Due to the requirement to use market data as at the balance sheet date, pensions liability estimates include an inherent element of volatility.</p> <p>For the annual calculation of provisions, up-to-date data is used and the call on the provision during the previous financial year is considered, which ensures that the outcome of previous estimations is taken into account.</p>
5. Were any changes made to the estimation processes in 2023/24 and, if so, what was the reason for these?	No changes were made in comparison to the previous financial year.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>It should be noted that the CIPFA Code requires or recommends that appropriately qualified experts are used to advise in some particular areas, and the Council follows this guidance. These are areas which require specific knowledge, qualifications or experience beyond that normally within the scope of accounting professionals. By extension there are other areas beyond those specified by the Code where this applies, which are in general apparent as part of the ongoing service / budget management process. The most significant example is the insurance provision, where the council incorporates claims assessment advice from its insurance actuary on the potential cost of individual claims.</p>
<p>7. How does the Local Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>For land and property valuations, internal valuations are reviewed by another qualified valuer, and external property valuations are also peer reviewed. Similarly, the estimation of significant provisions within Financial Services is reviewed at a senior level. The pension fund actuaries operate within the requirements of their own professional standards.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Reviews of valuations as described above are evidenced. The requirement for peer review of external valuations is included within the valuation reports received.</p> <p>The Council has received information from the pension fund actuaries explaining the control procedures that they have in place and the assurances that they can therefore provide.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>The Committee receives an annual report on Financial Management and Control arrangements within the Council, which provides assurance over adherence to professional accounting standards and that there are appropriate systems and procedures in place to ensure all aspects of sound financial management. In addition to the ongoing arrangements, the draft statement of accounts is reviewed by the CFO and DCFO, as evidenced by the assurance given by the Chief Finance Officer's approval of the accounts.</p> <p>Members of the committee are briefed on the draft statement of accounts covering significant items and have the opportunity to ask for further information on any figures included within the accounts.</p>
<ul style="list-style-type: none"> - 10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they? 	<p>The Council is not aware of any additional significant accounting estimations other than those included in Appendix A.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p>	<p>Management are satisfied that the arrangements comply with professional standards and accounting requirements, including the use of experts where appropriate and ensuring any changes to accounting requirements are implemented. Management are therefore satisfied that the arrangements are reasonable.</p>
<p>12. How is the Corporate Governance and Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>The Committee receives an annual report on Financial Management and Control arrangements within the Council, which provides assurance that there are appropriate systems and procedures in place to ensure all aspects of sound financial management. In addition to the assurance given by the Chief Finance Officer's approval of the accounts, Members have the opportunity to review the draft accounts and to ask detailed questions about any aspect of them.</p>

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Current value in existing use or DRC or historic cost, as appropriate for asset class.	Independent review by qualified valuer & reasonableness check by Finance.	Yes – including external for several properties	Estimation uncertainty was limited as the estimate was undertaken by recognised valuation methods and pragmatic, previously used, assumptions, together with an authorisation procedure in accordance with RICS Red Book practice.	No change to the method.
Council dwelling valuations	CVEU, adjusted for regional social housing factor.	Independent review by qualified valuer & reasonableness check by Finance.	Partly	No out of the ordinary level of uncertainty applies, as the volume of transactions has recovered following covid.	No change to the method.
Investment property valuations	Fair value (i.e. market value)	Independent review by qualified valuer & reasonableness check by Finance.	Yes – including external for some larger properties	Estimation uncertainty was limited as the estimate was undertaken by recognised valuation methods and pragmatic, previously used, assumptions, together with an authorisation procedure in accordance with RICS Red Book practice.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	Straight line based on opening balances with no assumed residual value.	Review & reasonableness check.	No	Annual revaluations of all significant value assets reduces the potential for uncertainty.	No
Assets Held for Sale	Lower of carrying value & fair value less costs to sell.	Independent review by qualified valuer & reasonableness check by Finance.	Yes (Internal)	In accordance with current RICS guidance, material uncertainty for no-dwelling assets has been disclosed at the balance sheet date.	No
Valuation of defined benefit net pension fund liabilities	On an actuarial basis using the projected unit method (as required by accounting standards).	LCC review of input data; review & reasonableness checks in place within actuary.	Yes (external)	Sensitivity analysis for the main assumptions is disclosed as required.	No
Valuation of fair value estimates (including use of Level 2 inputs)	In accordance with accounting standards, using the FV hierarchy. All estimates for 22/23 are level 2, i.e. based on directly or indirectly observable data.	Independent review for investment property valuations and Treasury FV disclosures. Reasonableness check for others.	Yes for some items (external)	Please see comments for investment properties and investments.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Fair Value of Debt Instruments estimate (PFI, PWLB loans etc.)	In accordance with accounting standards, using the FV hierarchy. All estimates for 22/23 are level 2, i.e. based on directly or indirectly observable data.	Independent advice for Treasury and PFI FV disclosures.	Yes (external)	Please see comments for investment properties and investments.	No
Provisions	Large volume/low value claim populations – based on latest claims data and past success rates. One-off liabilities – based on best available information.	Budget monitoring, review of individual significant accruals and reasonableness review.	Yes (external) for the Insurance provision only.	Limited uncertainty for large volume/low value populations due to factual nature of inputs. Currently no material one-off liabilities requiring provisions. Any difference between the estimations and outcomes would be reflected in future financial periods.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Contingent liabilities (and contingent assets)	These are all one-off items and an assessment is made on the basis of the best available information.	Potential contingent assets and liabilities are reviewed on a quarterly basis during the year. The position is updated at year end as part of the closedown process.	No	Contingent liabilities and assets are by their nature uncertain in either their likelihood or their value (or both). For any which are potentially material, disclosure is made explaining the nature of the uncertainty.	No
Credit loss and impairment allowances	Large volume/low value debtor populations – based on past default rates and any known new factors. Large one-off debtors – based on any known information.	Review of most significant provisions and overall reasonableness checks.	Partly – for default rates relating to financial institutions (external)	Limited uncertainty for large volume/low value populations due to the volume of historical data used. Any difference between the estimations and outcomes would be reflected in future financial periods.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Finance lease liabilities	Actuarial method as required by accounting standards, using expert valuation of asset value & expected life for property leases.	Proforma used to highlight errors in interest rates for whole life calculation.	Yes (internal) for property input data.	Estimation is largely a mechanical calculation based on input data. Some (but not all) leases require qualified valuer opinions within the input data.	No
PFI Liabilities	Actuarial method as required by accounting standards, using the contractor's financial model.	Proforma used to highlight errors in interest rates for the whole life calculation.	No	Estimate is fixed at the start of the contract unless terms are renegotiated, and is a calculation based on the original financial model as required. The Code does not permit alternatives.	No
Other (please add)					



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