Leeds City Council 2021-22 Audit Plan

Year ending 31 March 2022

22 September 2022

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

Factors

Financial developments and Covid-19

The Authority continues to operate in an uncertain financial environment. Leeds City Council, as with all local authorities, will need to continue to plan with little certainty over funding in the medium term whilst also recovering from the impact of the Covid-19 Pandemic. Additionally, the recent increasing levels of inflation and the upward movement in interest rates will also have an impact on the Council's finances.

Despite these challenges, the Financial Performance Outturn Report presented to Executive Board on 22 June 2022 reported an outturn underspend of £1.5m for 2021-22. This position is £1.1m better than the provisional outturn position reported to Executive Board in April 2022 when an underspend of £0.4m was projected and is mainly due to increased underspends within the Resources and Strategic Directorates. The improved outturn position has allowed the Council to increase its contribution to the Council's general reserves at the year end. This is in accordance with the Council's current aim of increasing its level of general fund reserves and balances.

The Council's General Fund and General Fund Earmarked Reserves totalled at £220.0m at 31 March 2022 (General Fund £33.3m and General Fund Earmarked Reserves £186.7m) compared with £223.6m (General Fund £27.8m and General Fund Earmarked Reserves £195.8m) at 31 March 2021. The Council delivered savings of £56.7m during the year compared to a savings target of £56.1m.

The impact of Covid-19 has continued to cut across the Council's activities, impacting both on its income in the collection rates of housing rents, Council Tax and Business Rates, and in expenditure, which has seen additional pressures. To offset the additional costs of Covid-19, the Council received Covid-19 funding from Central Government of £24.3m and a further £3.0m for loss of income from sales, fees and charges. The total amount of additional Covid-19 funding of £27.3m was fully applied during 2021-22. The Council is now in the process of trying to return service provision, service levels and its operations back to levels which were in place pre Covid-19, but recognises that this will take some time to achieve.

The Council's Medium Term Financial Strategy (MTFS) for 2022-23 to 2026-27 presented to Executive Board in September 2021 identified an estimated budget gap of £146.5m for the five years of the MTFS of which £65.4m related to 2022-23, £48.1m 2023-24, £13.3m 2024-25, £12.8m 2025-26 and £7.0m 2026.27 (after initial savings proposals of £4.8m for the five year period of the MTFS). By the time the Council approved the 2022-23 budget in February 2022, the budget gap of £65.4m for 2022-23 had been reduced to £20.5m and the Council set a balanced budget for the year. The Council is continuing to implement savings schemes to deliver savings of £20.5m by 31 March 2023. We understand the Council's MTFS will be updated in September 2022 for the five year period commencing 2023-24. Since the approval of the 2022-23 budget, the financial outlook has worsened with inflation posing a significant risk to the budget placing greater pressures on the Council's finances, particularly in relation to energy costs and higher pay awards which we understand are estimated at £5.4m and £19.5m respectively . The increase in the cost of living could also impact on the demand for Council services as well as collection rates for council tax and business rates.

Climate Change

Leeds City Council is committed to making Leeds carbon neutral by 2030. The Council's sustainable infrastructure priority included within its Best Council Plan reflects the Council's 2019 declaration of a climate emergency and its ambition to work towards being a net zero carbon City by 2030.

The Council Undertook the Big Leeds Climate Conversation (BLCC) to raise awareness in 2019 and explore ideas to cut emissions. The BLCC included council officers and volunteers engaging with residents about the climate emergency and promoting consultation at more than 80 meetings and events across the City including online questionnaires, in-person conversations, focus groups and social media. This engagement has informed the Council's approach and strategy to the climate change emergency and includes improving the resilience of the city's infrastructure and the natural environment, reducing flooding and other risks from future climate change.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. We were recently subject to an external regulatory review of our audit work at the Council which confirmed our audit quality, documentation and testing was of a good standard. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Chief Officer – Financial Services
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit Committee updates
- We will continue to review the Council's financial position and the on-going impact of Covid-19 through our regular discussions with the Chief Officer - Financial Services
- Our VFM work will also consider the actions being taken by the Council to address the climate change emergency and the impact this is having on the Council's current and future plans.

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 agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (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 and group'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 to maximise the outcomes that can be achieved.

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 business and is risk based.

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
- Valuation of land and buildings
- Valuation of the net pension fund liability.

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

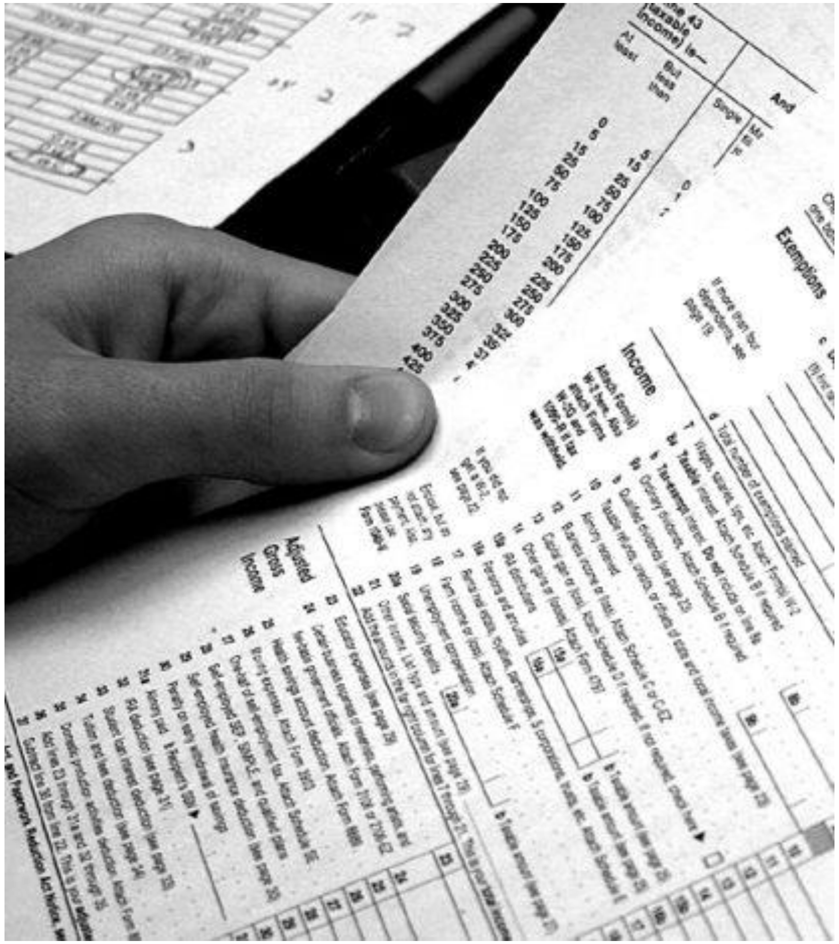
We have determined planning materiality to be £26,898k (PY £27,202k) for the Council, which equates to 1.3% of your draft gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1,345k (PY £1,360k) for the Council.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have not identified any risks of significant weakness at this time. We will keep this under review as our audit progresses.

Through regular meetings with senior management, we will continue to monitor the Council's current and future financial position given the financial challenges resulting from the impact of inflation and the potential risks to the budget and the Council's finances, particularly in relation to energy costs and higher pay awards. Whilst we do not consider the Council's financial sustainability to be a significant risk at this stage, we will continue to keep this under review having regard to the impact of current and future financial pressures and how the Council manages these.

Introduction and headlines cont.



Audit logistics

Our interim audit visit has taken place in July and August, and our final audit visit is targeted to take place from October through to January 2023, providing we can conclude the 2020-21 audit (other than resolution of the national issue on infrastructure assets (see also page 14)) following the Corporate Governance and Audit Committee on 3 October.

Subject to the satisfactory completion of our 2021-22 audit work, we aim to finalise our completion procedures to take place by the Corporate Governance and Audit Committee meeting on 6 February 2023. Given the issues experienced in the timeliness of delivering the audit in recent years, this timetable is challenging and would represent an earlier sign off of the Council's accounts than achieved in both 2019-20 and 2020-21. However, with the support and engagement of the Council to provide appropriate, supporting working papers and deal with audit queries in a timely basis, it is a timeframe which is realistic.

Our key deliverables are this Audit Plan, our Audit Findings (ISA260) Report (due to be presented to the Corporate Governance and Audit Committee on 6 February 2023) and Auditor's Annual Report on the Council's VFM arrangements (targeted to be presented to the Corporate Governance and Audit Committee on 24 March 2023).

Our fee for the audit will be £274,354 (PY: £275,604) for the Council, subject to the Council delivering a good set of financial statements and working papers.

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. Group audit

In accordance with ISA (UK) 600, we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The Council does not currently prepare group accounts. However, the Council is involved with a number of group entities including three subsidiary companies but has decided not to prepare group accounts for 2021-22 on the basis they are not considered material to the Council's overall financial position.

As part of our audit work, we will review the assessment undertaken by management to determine if group accounts should be prepared and consider whether group accounts are required for 2021-22. We have requested the Council's 2021-22 group accounts assessment and rationale for not producing group accounts. We will undertake our review of the Council's assessment upon receipt.

4. 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	**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 Authority, 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). There is a risk that expenditure may be misstated by not recording or under recording expenditure incurred during the year. Having considered the nature of the expenditure streams at the Authority, 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 • there is no significant pressures on general fund reserves of the Council • Covid -19 funding has been sufficiently provided for additional expenditure and loss of income during 2020-21 and into 2021-22.	As we do not consider this to be a significant risk for the Authority, we will not be undertaking any specific 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 using for example cut off testing.

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 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.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
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 (some £5.061 bn) 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 2022 for assets valued in year, the arrangements management has used to ensure the valuation remains materially appropriate at 31 March 2022. The Authority has a valuation date of 1 January for most assets. We will consider the arrangements management has used to ensure the valuation remains materially appropriate at 31 March 2022 from these dates.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (some £1.58bn) 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 net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and 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 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 made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • 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.

5. Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

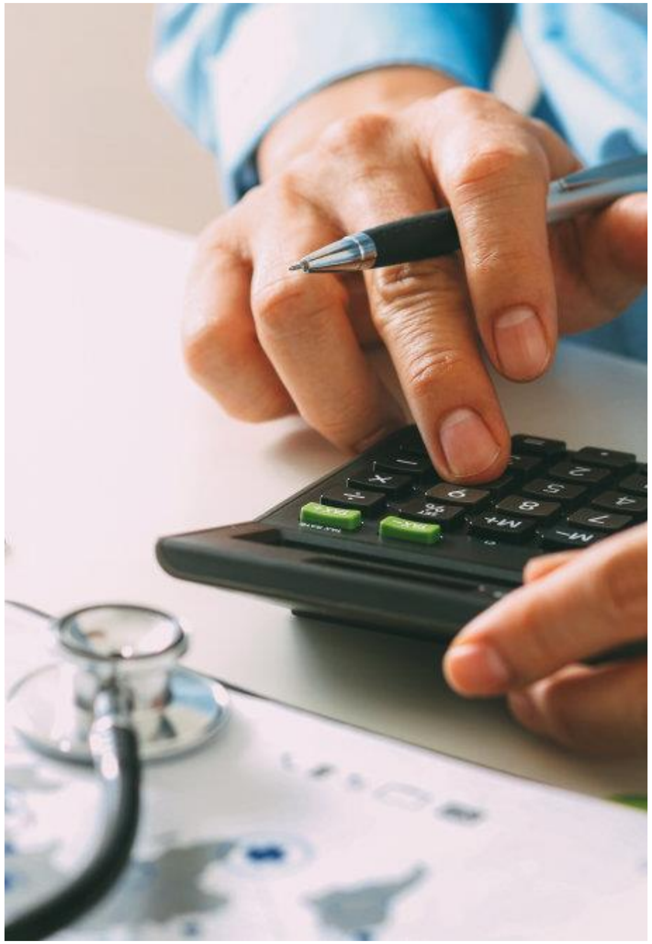
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- 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 entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity'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?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- Level of Council borrowings and the associated Minimum Revenue Provision charge
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments.

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

Planning enquiries

As part of our planning risk assessment procedures, we previously sent letters of enquiry to management in early August 2022. We recommend management responses are provided to us by the end of September and considered by the Corporate Governance and Audit Committee at its meeting on 3 October 2022.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

6. 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 2021-22 financial statements, consider and decide upon any objections received in relation to the 2021-22 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.

Infrastructure Assets

The valuation of Infrastructure assets in local government continues to be an on-going issue. We understand the Department for Levelling Up, Housing and Communities (DLUHC) is in the process of issuing a Statutory Instrument which would provide a statutory override given most authorities do not fully comply with current accounting requirements on infrastructure assets.

We understand the DLUHC is aiming to issue the Statutory Instrument during November, but given the State Funeral of HM Queen Elizabeth II, this may be delayed into early December 2022. We will continue to keep the finance team and the Corporate Governance and Audit Committee briefed on any developments as they arise.

7. Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £26,898k (PY £27,202k) for the Council, which equates to 1.3% of your draft gross expenditure on net cost of services as part the draft 2021-22 accounts.

We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £25,000 for senior officer remuneration (PY £25,000).

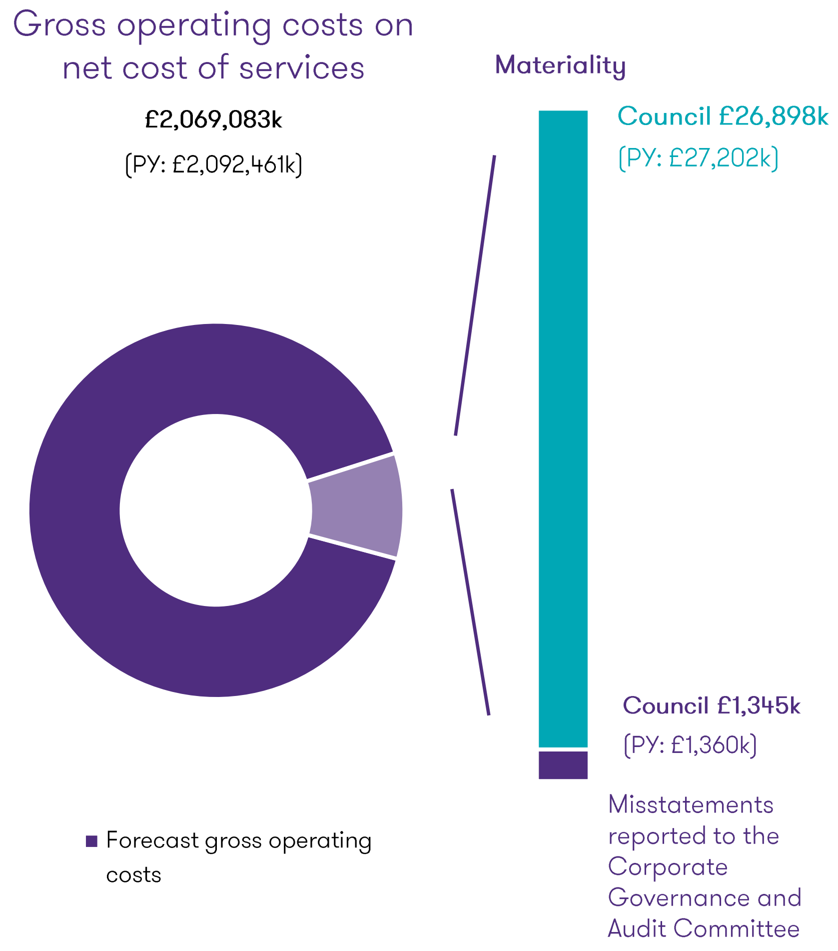
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters 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. 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 £1,345k (PY £1,360k) 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.



8. IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. 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 of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

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

9. Value for Money arrangements

Approach to Value for Money work for 2021-22

The National Audit Office(NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources . When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Areas of focus for VFM work

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report. Whilst we have not identified any possible significant weaknesses in arrangements, we will as part of our VFM audit work consider, the actions being taken by the Council to address the impact of climate change.

Since the approval of the 2022-23 budget, the financial outlook has worsened with inflation posing a risk to the budget placing greater pressures on the Council's finances, particularly in relation to energy costs and higher pay awards which we understand are estimated at £5.4m and £19.5m respectively. The increase in the cost of living could also impact on the demand for Council services as well as collection rates for council tax and business rates, as a result, whilst we do not consider the Council's financial sustainability to be a significant risk at this stage, we will continue to keep this under review having regard to the impact of current and future financial pressures and how the Council is able to manage these.

10. Audit logistics and team

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 Authority.

Perminder Sethi, Senior Engagement 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 Assistant Manager

Andrew assists in planning, managing and delivering the audit fieldwork, ensuring that the audit is delivered effectively and efficiently. Andrew supervises and co-ordinates the audit team.

Audited body 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 audits. Where the elapsed time to complete an audit exceeds that agreed due to a client 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 a client 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.

The target statutory date for the 2021-22 accounts to be audited is 30 November 2022. Given the issues which have delayed the completion of the 2020-21 accounts, this deadline is not considered realistic and we are aiming to conclude the 2021-22 audit in February 2023. We have discussed and agreed this timeline with the Chief Officer – Financial Services. The completion of our audit work in February 2023 would be significantly ahead of the sign off dates for both 2020-21 and 2019-20.

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 agreed timetable you have agreed with us, including all notes, the Narrative Report 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 items for testing
- ensure that all appropriate staff are available throughout the planned period of the audit
- respond promptly and adequately to audit queries.

11. Audit fees

In 2017, PSAA awarded a contract of audit for Leeds City Council to begin with effect from 2018-19. The fee agreed in the contract was £178,604. 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 2021-22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed in section five in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our latest results in our inspections with the FRC are included at Appendix A. In addition, the recent FRC review of our work at Leeds City Council demonstrates our good performance. Furthermore, we have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. There are also specific challenges at Leeds City Council resulting from its dated Financial Management System (FMS) which has necessitated additional work as well as the availability of timely working papers and responses to audit queries which we have previously reported to the Corporate Governance and Audit Committee, these have both increased the audit time required. Our proposed work and fee for 2021-22, as set out below, has been agreed with the Chief Officer – Financial Services.

	Actual fee 2020-21	Proposed fee 2021-22
Leeds City Council Audit	£275, 604	£274,354
Total audit fees (excluding VAT)	**£275,604**	**£274,354**

It should be noted that the Department for Levelling Up, Housing and Communities (formally MHCLG) has recognised the need to increase audit fees and, in this context made £15m available to local authorities to support the expected uplift in fees in 2020-21. As a firm we have 40% of the local authority market and our proposed increases across the sector equates to 40% of the funding available made available to local authorities.

Assumptions

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

- prepare a good quality set of financial statements , 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.

12. 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 (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. 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 and component audit firms providing services to the Council.

Other services

No other services provided by Grant Thornton in respect of 2021-22 were identified at this time.

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 (ISA260) Report at the conclusion of the audit.

VAT work for a Leeds School

In January 2022, the audit team became aware following discussions with the finance team, of tax services provided to a Leeds School by the Grant Thornton Tax Department. The audit team determined that VAT services had started to be provided to one school. The total amount billed was £1,500 out of a total fee of £6,000. This work should not have taken place and on learning about this breach the audit team informed the GT Ethics Department and Public Sector Audit Appointments. The GT tax team also informed the school and withdrew our tax services. We are reporting this matter here for transparency and full disclosure. We have also reported this matter in the 2020-21 Audit Findings Report being presented to the Corporate Governance and Audit Committee on 3 October 2022.

Service	Fees £	Threats	Safeguards
Audit related:			
NONE			
Non-audit related:			
NONE			
Total	-	-	-

Appendix A: Financial Reporting Council's (FRC) quality inspection

On 29 October, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: FRC AQR Major Local Audits_October 2021

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018-19	Number 2019-20	Number 2020-21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

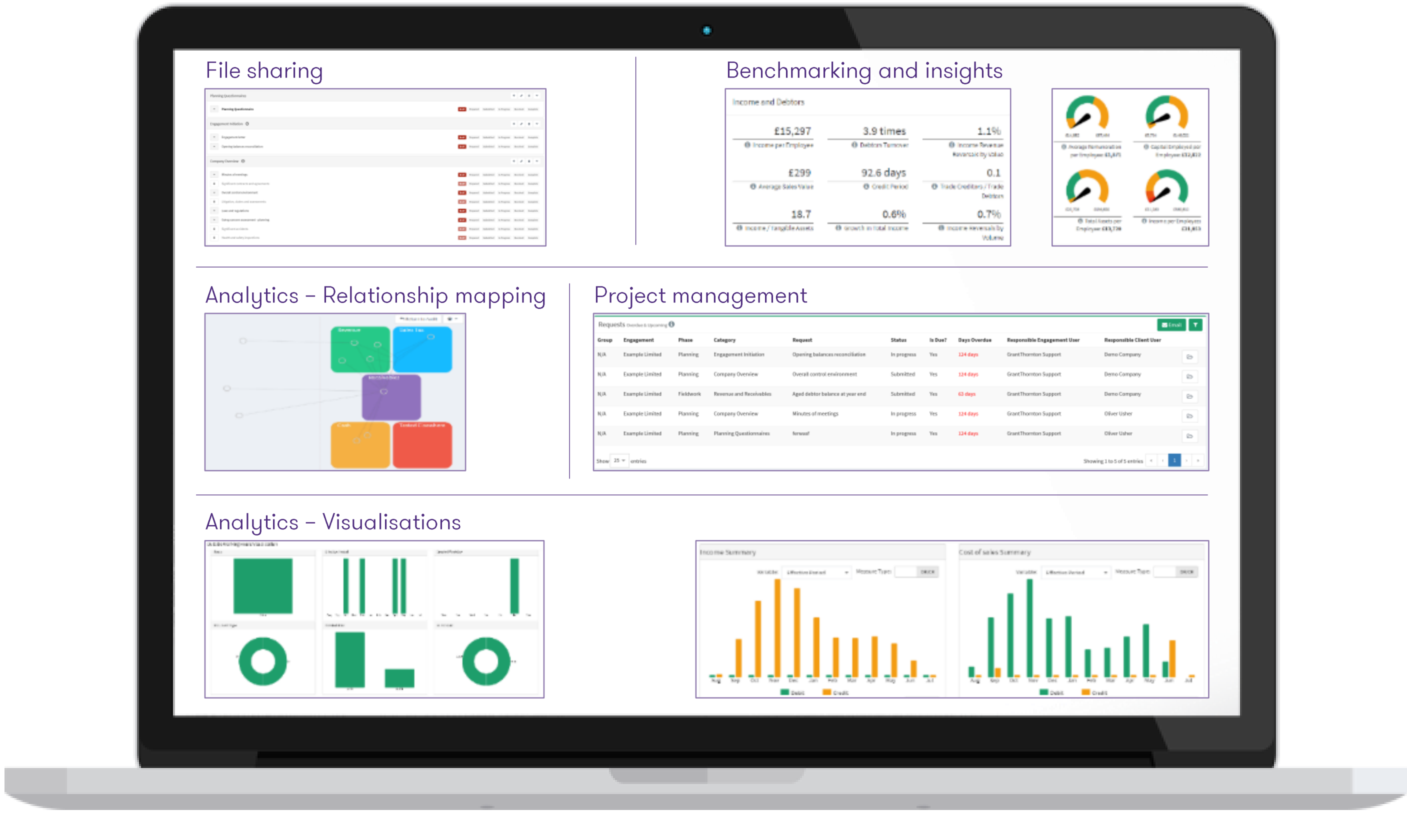
Local audit plays a critical role in the way public sector audits and society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

The Leeds City Council 2019-20 accounts audit was subject to FRC review commencing in March 2022 as part of the 2021-22 FRC inspection cycle. The outcome of this review was provided in August 2022 with the audit being graded a 2, a 'good file with limited improvements' and only 1 formal reporting point on obsolescence was raised. This outcome provides good assurance for officers and members of the quality and depth of audit work along with the documentation and testing undertaken by your external audit team.

Appendix B: Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool. This function was introduced into the Leeds City Council audit for 2020-21.
Project management	Effective management and oversight of requests and responsibilities. This function was introduced into the Leeds City Council audit for 2020-21.
Data analytics	Enhanced assurance from access to complete data populations. This function will be considered for use commencing 2022-23, the final year of this audit contract.
Data extraction	Providing us with your financial information is made easier. This function will be considered for use commencing 2022-23, the final year of this audit contract.



Grant Thornton's Analytics solution is supported by Inflo Software technology

Appendix B: Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data

File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work

Project management

- Facilitates oversight of requests
- Access to a live request list at all times

Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection	More time for you to perform the day job
Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders. Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance. Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.	Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us. Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced. We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments. We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined. Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendix C: Progress against prior year audit recommendations

We identified the following issues in our 2020-21 audit of the Council's financial statements, which resulted in eight recommendations being reported in our 2020-21 Audit Findings (ISA260) Report (Working Draft). We are unable to follow up on these recommendations until we have concluded the 2020-21 audit. We will follow up the action taken by the Council to implement our recommendations in the 2021-22 Audit Findings Report in February 2023 as well as including any further recommendations made in our final Audit Findings Report for 2020-21.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	TBC	**Asset valuations** The valuation of a number of assets in the financial statements have been overstated, including some within the rolling programme of valuations (£2.1m) resulting from a clerical error, and the Temple Green Park and Ride scheme (£16.4m) which incorrectly included the land value twice and used the wrong building costs in valuation There is a need for management to more effectively review the valuations provided by its valuation experts to ensure the valuation is appropriate and supported by the data used for valuations, without this, there remains a risk that valuations may not be correctly recorded in the financial statements.	**Management response** The Council will look to introduce sample checking to reduce the risk of clerical errors in the transfer of valuations data to the Finance team. The Council's valuers will review their quality assurance procedures. **Audit update – September 2022** We will consider the revised arrangements in place once we commence the 2021-22 final accounts audit. We will report our findings in the Audit Findings Report.
2	TBC	**Group account disclosure** The Council does not produce group accounts but is involved with a number of entities. The accounts disclosure (Note 24) would benefit by showing the entities Leeds City Council controls and does not consolidate in to its accounts. This should include some high level financial information to aid the reader, for example, the main financial information for each of the Council's subsidiaries and associate companies. Whilst the Council has expanded the narrative disclosure in 2020-21, we consider this can be developed further to include for example, a table summarising gross income, gross expenditure, surplus / deficit as well as gross assets and gross liabilities for each entity. Without this information, a reader would not be aware of the entities the Council controls and their financial significance to the Council.	**Management response** The group accounts disclosure identifies by name the entities which are within the Council's group. For the 2020/21 disclosure, the Council did include in the narrative the high level financial information for its only non-trivial subsidiary, sufficient for readers to understand its financial significance to the council. The Council will review its disclosure for 2021/22, but notes that there would be practical difficulties in obtaining reliable financial information for some of the non-material entities which do not produce their accounts in line with the local authority accounts timetable **Audit update – September 2022** We will consider the revised arrangements in place once we commence the 2021-22 final accounts audit. We will report our findings in the Audit Findings Report.

Appendix C: Progress against prior year audit recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3	TBC	**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. 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** The Finance team will again consult with the Council's valuers over the practicality of obtaining robust valuations based on observable data within the required timescales for production of the draft statement of accounts. However valuation work is already underway for the 2021/22 statement of accounts based on the valuation date of 1st January 2022. **Audit update – September 2022** We will consider the revised arrangements in place once we commence the 2021-22 final accounts audit. We will report our findings in the Audit Findings Report.
4	TBC	**Working Papers** As last year, whilst working papers show the build up of the numbers in the accounts, there is generally 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** It is important to be clear that all working papers are already agreed to FMS and to the financial statements. The Finance team will review its processes for working papers, and in particular the extent to which it could make the presentation of working papers simpler for the benefit of audit staff. **Audit update – September 2022** We will consider the revised arrangements in place once we commence the 2021-22 final accounts audit. We will report our findings in the Audit Findings Report.

Appendix C: Progress against prior year audit recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
5	TBC	**User accounts identified with inappropriate access rights in SAP** Our work identified 18 user accounts with inappropriate DEBUG access allowing users to by-pass most controls in SAP. Debug access presents several risks including the ability to change or delete data without this being logged. The Authority should not permanently grant Debug access in the production environment and existing user accounts should be reviewed and debugging access removed.	**Management response** The Council is reviewing this finding and will take appropriate remedial action once the technical implications have been fully assessed. **Audit update – September 2022** We will consider the revised arrangements in place once we commence the 2021-22 final accounts audit. We will report our findings in the Audit Findings Report.
6	TBC	**Segregation of duty conflicts within SAP** We noted segregation of duty conflicts within the SAP system with 5 user-IDs assigned with developer access who could potentially change the source code in production. We also identified 4 user accounts with conflicting access combinations that could be used to make changes to the production environment. We recommended user accounts should be reviewed and appropriate segregation of duties introduced, in addition, developer access keys should not be given to	**Management response** The Council is reviewing this finding and will take appropriate remedial action once the technical implications have been fully assessed. **Audit update – September 2022** We will consider the revised arrangements in place once we commence the 2021-22 final accounts audit. We will report our findings in the Audit Findings Report.
7	TBC	**Lack of review of information security/audit logs in FMS and Capita (Academy)** Information security event logs, which capture the monitoring of activities such as failed logins and use of privileged user accounts within Capita(Academy) and FMS are not reviewed. We recommended security event logs are reviewed on a regular basis for example daily or weekly, by IT security personnel / team who are independent of those administrating FMS & Capita(Academy) and its underlying database.	**Management response** Academy – The system does not have the technical capability to provide a log showing when a user's access was created/amended or revoked. FMS – The possibility of reporting on failed logins will be considered. **Audit update – September 2022** We will consider the responses provided once we commence the 2021-22 final accounts audit. We will report our findings in the Audit Findings Report.

Appendix C: Progress against prior year audit recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
8	TBC	**Inadequate control over generic accounts within FMS database and Capita (Academy) application** We noted inadequate control over generic accounts within the FMS database and Capita (Academy) application. While the system was configured to record failed logins, the following generic accounts were not monitored for suspicious activity: two generic FMS database administrator user accounts "SYS" and "SYSTEM"; and the generic Capita(Academy) administrator user account "Database Admin". Additionally, we noted no password reset controls were configured on these user accounts to enforce the periodic change of passwords. We recommended where possible, generic accounts should be removed, and individuals should have their own uniquely identifiable user accounts created to ensure accountability for actions performed. Where monitoring is undertaken this should be formally documented and recorded.	**Management response** FMS – These generic user IDs and passwords are encrypted into scripts for some automatic processes, and there would be risk involved in re-writing these scripts for periodic password changes. The passwords are held in a DataBase vault. Academy - This is an admin account for the Database administrator. Although the account has a generic name, only the Principal DBA Officer has access, therefore the account is personal to him. This account is not for managing users, this account is only to access and maintain the backend build of the system and tables. **Audit update – September 2022** We will consider the responses provided once we commence the 2021-22 final accounts audit. We will report our findings in the Audit Findings Report.

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