

Approval of the 2020/21 Statement of Accounts and Grant Thornton Audit Report

Date: 6th February 2023

Report of: the Chief Finance Officer

Report to: Corporate Governance and Audit Committee

Will the decision be open for call in? Yes No

Does the report contain confidential or exempt information? Yes No

Brief summary

- Grant Thornton's audit of the 2020/21 accounts is nearing completion, and an updated report of their findings is attached. The main points are that :
 - Subject to completion of their remaining audit work, Grant Thornton anticipate being able to issue an unqualified opinion on the 2020/21 Statement of Accounts,
 - There are expected to be no material unadjusted audit differences affecting the financial statements;
- An updated copy of the statement of accounts will be published with this report. The accounts will be certified by the Chief Finance Officer as a true and fair view of the Council's financial position as at 31st March 2021 prior to the Chair of the Committee being asked to approve them.

Recommendations

- a) Members are asked to receive the audit report of the Council's external auditors on the 2020/21 accounts and to note that there are expected to be no unadjusted audit differences to the accounts.
- b) Members are asked to consider the updated 2020/21 Statement of Accounts, and to approve these as the Council's final audited accounts for the year. The Committee is further asked to authorise the Chair to acknowledge this approval on behalf of the Committee by signing the appropriate section within the Statement of Responsibilities on page 1 of the accounts.
- c) On the basis of the assurances received, the Chair is asked to sign the management representation letter on behalf of the Corporate Governance and Audit Committee.

What is this report about?

- 1 At its meeting in July 2021, the Committee considered the unaudited 2020/21 Statement of Accounts, and they were subsequently made available for public inspection. Under this Committee's terms of reference, members are required to approve the Council's final audited Statement of Accounts and to consider any material amendments identified by the Council or recommended by the auditors.
- 2 The bulk of the audit work on the 2020/21 accounts had been completed by early 2022, and Grant Thornton's interim audit report and a revised set of accounts were presented to the committee in February 2022. However, in early 2022 an issue relating to accounting for infrastructure assets (primarily highways assets) was identified at a national level. This prevented any further sign-off of the statement accounts for all councils with infrastructure assets until the issue was resolved. New Regulations and revisions to the accounting Code of Practice in relation to infrastructure assets were issued in December 2022, and these have now enabled the audit of the Council's 2020/21 accounts to be concluded, with the addition of some further disclosures in relation to infrastructure assets.
- 3 During preparation of the Council's 2021/22 draft accounts, issues were identified with the valuation basis of a small number of property assets, which have led to the Council revising their valuations for the 2020/21 accounts. Details are given in paragraphs 5.3 to 5.6 below.
- 4 Following the conclusion of the audit of the statement of accounts, Grant Thornton are required to audit the Council's WGA (Whole of Government Accounts) return. Once the WGA audit has been carried out, the overall 2020/21 audit will be closed.

What impact will this proposal have?

5 Post Balance Sheet Events and other significant amendments

- 5.1 Under proper accounting practice the Council is required to consider any post balance sheet events which, if known at the time of the accounts being produced, would have significantly altered the Council's financial statements. If any such events have happened then the Council is required to amend the accounts if the cumulative value of the events would have a material impact on the Council's financial statements. Such events must be considered up until this Committee approves the final accounts and the auditors provide their audit opinion.
- 5.2 The report presented to the Committee in February 2022 identified a small number of significant amendments to the accounts which had been identified at that date :
 - i. Reductions of £18.5m had been recognised in the value of property, plant and equipment. This included a £16.5m reduction due to an error in the valuation of one asset, and a small number of clerical errors in recording other asset valuations.
 - ii. An increase of £34.0m in the value of the Council's share of the West Yorkshire Pension Fund's assets, following updated valuations carried out for WYPF after the Council's draft accounts were prepared. This was partially offset by an increase in the Council's pension liabilities of £29.1m following a recalculation of the impact of early retirements during 2020/21 using more detailed data than was available at the time that the actuarial calculation used in the draft accounts was produced. The overall impact of these two items was to reduce the net pensions liability by £4.9m.
 - iii. In the Collection Fund, a reduction to the level of the business rates appeals provision was recognised following Government guidance limiting the ability of businesses to claim for a material change in circumstances due to covid, and there was a reduction in the bad debt provision for business rates following better than anticipated collection of arrears. The Council's share of these two reductions was £3.7m and £5.9m respectively, however there was a resulting reduction of £5.5m in the level of Tax Income Guarantee

grant due as a result of the increased net business rates income, and an increase of £0.8m in the levy payable to the regional business rates pool.

- 5.3 One further issue has been identified which requires the 2020/21 accounts to be amended. During the preparation of the 2021/22 draft accounts, the Council identified a valuation issue which has led to a revision of the values of four properties in the 2020/21 final accounts. For 2021/22, the Council had commissioned the District Valuer's Service to carry out a number of property valuations, primarily due to capacity issues in the in-house valuation team. Although the majority of these valuations were in line with the previous in-house valuations, the District Valuer's Service recommended a change in the valuation basis of the Leeds Arena. The Arena had previously been valued on the basis of the future net income due under the lease to the operator, which is on commercial terms. The District Valuer's advice was that following the impact of the pandemic on the wider entertainment industry, there was no longer sufficient objective evidence on which to base an income valuation, and a DRC (depreciated replacement cost) basis should be used instead. As this change in circumstances applied equally to the 2020/21 financial year, the District Valuer was commissioned to revalue the Arena for the 2020/21 accounts. The result was an increase in the balance sheet value of the asset at 31st March 2021 by £59.4m, from £31.1m to £90.5m. The significant difference arising from the change in the basis of valuation is a reflection of the extent to which the costs involved in building a venue such as the Arena outweigh the direct commercial income which can be earned, with the benefits instead being reflected in the impact on the wider local area. It should be emphasised that the valuation basis change is a technical issue affecting the statement of accounts, and it does not indicate any increase in the potential market value of the Arena.
- 5.4 In the light of the District Valuer's advice regarding the Arena, the valuations of other assets were reviewed for any similar circumstances. This identified that the Leeds Grand Theatre, the Howard Assembly Rooms and the Carriageworks Theatre were also valued on an income basis. In the case of the Grand Theatre and the Howard Assembly Rooms, these venues were valued at a nominal value due to the existence of long term peppercorn leases to their operators. The District Valuer was therefore commissioned to value each of these properties at 31st March 2021. This was done on a DRC basis, resulting in a combined increase in value across the three properties of £28.5m.
- 5.5 The District Valuer's advice is that because the Grand Theatre, Howard Assembly Rooms and the Carriageworks are not leased out on commercial terms, a DRC valuation basis would also have been more appropriate for these assets in earlier years. Grant Thornton therefore requested that the council assessed the materiality of the impact of a valuation basis change for these assets in prior years. The District Valuer carried out valuations which indicated that a DRC based valuation at 31st March 2019 and 31st March 2020 would have had a combined impact on the valuations of £29.2m and £29.0m respectively. As this is above Grant Thornton's audit materiality limit, although it is not material for the Council's accounts under the Code, it has been agreed that a prior period adjustment will be included in the 2020/21 accounts for the valuations of these three assets.
- 5.6 The overall impact of the property valuation changes described in 5.3 to 5.5 above has been to increase the Council's non-spendable reserves at 31st March 2021 by £87.9m. There is no impact on spendable reserves.
- 5.7 As outlined in paragraph 5.1 above, any post balance sheet events must be considered up until the accounts are approved. A verbal update will be provided at Committee to confirm the final position.

6 Public Inspection Queries, Questions to the Auditors and Objections

- 6.1 Under the statutory timescales for public inspection of the accounts, no formal objections or requests for additional information were received for the 2020/21 accounts

7 Key External Audit findings

- 7.1 Grant Thornton provided an interim report on the bulk of their audit work on the 2020/21 accounts to this Committee at its meeting in February 2022. Their final ISA260 report for 2020/21 which is attached at Appendix 2 provides an update on their completed audit work.
- 7.2 Grant Thornton's report indicates that, subject to the satisfactory completion of their audit work, they anticipate being able to issue an unqualified audit opinion on the council's accounts.
- 7.3 Grant Thornton's final report includes ten recommendations, of which eight were previously reported to the Committee in February 2022. There are two new medium priority recommendations relating to the statement of accounts.
- 7.4 Four of the recommendations included within the report relate to Grant Thornton's audit work on IT controls for the Council's key financial systems. Their IT audit for the 2021/22 financial year, which includes a follow up of these recommendations, has been completed and a report on it will be presented at the March meeting of the Committee.

8 Management Representation letter

- 8.1 Local authority auditors are required by the Code of Audit Practice to undertake the audit work on the accounts in compliance with International Standards on Auditing (ISAs). ISAs contain a mixture of mandatory procedures and explanatory guidance. Within the mandatory procedures are requirements to obtain written representations from management on certain matters material to the audit opinion. The management representation letter is designed to give Grant Thornton these assurances. In respect of the 2020/21 accounts the proposed letter is attached as Appendix 1 to this report. The letter is being reviewed by officers and confirmation will be provided at the meeting of the Committee on whether the Chief Finance Officer has requested any amendments before signing the letter to confirm that officers are not aware of any compliance issues on the representation matters raised in the letter.
- 8.2 The Committee is asked to consider whether members are aware of any issues that they want to bring to the auditors' attention in respect of the matters addressed in the management representation letter. If there are no such issues the Committee is asked to agree that the Chair can sign the letter on behalf of the Committee.

How does this proposal impact the three pillars of the Best City Ambition?

Health and Wellbeing Inclusive Growth Zero Carbon

- 9 The report relates to the council's underlying financial position rather than to any particular aspect of service delivery.

What consultation and engagement has taken place?

Wards affected: N/A

Have ward members been consulted? Yes No

- 10 The final Statement of Accounts and the Audit Report do not raise any issues requiring consultation or engagement with the public, ward members or Councillors

What are the resource implications?

- 11 Under the audit reporting arrangements for 2020/21 set out by the National Audit Office, the outcome of value for money audit work is to be reported separately from the audit of the

statement of accounts. Grant Thornton reported the outcome of their value for money audit for 2020/21 to the October 2022 meeting of the Committee.

What are the key risks and how are they being managed?

12 Grant Thornton's audit report sets out the key risks that they identified in advance of their audit, and their findings in respect of these risks.

What are the legal implications?

13 The amended Accounts and Audit Regulations 2015 require the audited Statement of Accounts together with the final audit report to be published before the 30th November or, if this is not possible, as soon as practicable after receipt of the final auditor's report on the statement of accounts.

14 Under this Committee's terms of reference, members are required to approve the Council's final audited Statement of Accounts and to consider any material amendments recommended by the auditors.

Options, timescales and measuring success

What other options were considered?

15 This report informs the Committee of the findings from Grant Thornton's audit for 2020/21.

How will success be measured?

16 Once the audit opinion has been received, the final audited accounts and the accompanying audit report will be published on the Council's website in accordance with the Regulations.

What is the timetable and who will be responsible for implementation?

17 The documents will be published as soon as is practical following receipt of the audit opinion.

Appendices

- Appendix 1 is the draft Management Representation letter to Grant Thornton, and Appendix 2 is Grant Thornton's updated Audit Findings Report.

Background papers

- None