

# The Audit Findings (ISA 260) Report for Leeds City Council

Year ended 31 March 2022

20 November 2023

## Updated draft report for Corporate Governance and Audit Committee (CGAC)

### Version control

1. Version 1 issued 10 July 2023 - Working Draft for CGAC. Issued to Management & CGAC
2. Version 2 issued 20 November 2023 - Updated Draft Report. Issued to Management & CGAC. **Changes shown in blue text.**



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**This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Corporate Governance and Audit Committee.**

## Gareth D Mills

Name: Gareth Mills  
For Grant Thornton UK LLP  
Date: **20 November 2023**

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.

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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Leeds City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2022 for those charged with governance.

## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work has been undertaken remotely and commenced during March 2023 and currently remains on-going. Our findings are summarised in Section Two of this report. As at the date of this report, we have not identified any audit adjustments impacting on the Council's outturn position and useable reserves. However, it should be noted [our work is approximately 80% complete which compares to 70% complete in July 2023. We will provide a further update at the Corporate Governance and Audit Committee meeting on 27 November 2023.](#)

Our work to date has identified a number of disclosure and presentational audit adjustments which are detailed at Appendix C. We have raised two audit recommendations for management as a result of our work in the Action Plan at Appendix A. Our follow up of recommendations from the prior year are detailed at Appendix B.

At present, there are no matters of which we are aware that would require modification of our proposed audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters:

- completing the remaining elements of our work including on PPE, pension fund assets and liabilities, payables and receivables, payroll costs, journals, grant income, operating expenditure, housing benefits, PFI and remuneration disclosures
- receipt of the updated 2021-22 draft financial statements incorporating all adjustments made to the 2020-21 audited financial statements
- review of the updated IAS 19 report (and the pension fund auditor's findings) reflecting the triennial valuation as at 31 March 2022 and the impact on the Council's financial statements. [We have now received the pension fund auditor's work on the triennial review data testing which we are currently reviewing](#)
- completion of our internal quality review processes, including final reviews of the file by both the Engagement Manager and Engagement Lead, specifically in respect of significant audit risks of PPE valuation, pension fund liability and journals testing
- reviewing the final version of the financial statements, Narrative Report and Annual Governance Statement
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

### Timing of the completion of the 2021-22 audit

Whilst our work remains on-going, our target is to complete our audit work and issue our audit opinion by 30 September 2023. This target remains dependant on the availability of working papers, supporting information and officer time to respond to audit queries and provide additional information where required. It is also appropriate to note that any delays to the completion of the 2021-22 audit is likely to delay the start of audit work on the Council's 2022-23 financial statements audit (further details are provided on page 18).

Since our working draft report was presented to the Corporate Governance and Audit Committee in July 2023, audit work has continued to progress albeit it at a slower pace than we would have hoped. There remains challenges within the capacity of the finance team to provide working papers and responses to outstanding queries due to other work pressures. We are now targeting to complete our audit work and issue our audit opinion by 15 December 2023. However, this is dependent on adequate capacity being made available within the finance team to provide working papers and respond to requests for information in a timely manner.

In our Auditor's Annual Report (AAR) for 2022-23 reviewing the Council's VFM arrangements, we have reported that for several years, we have raised concerns around challenges noted in the preparation and provision of working papers to support the external audit of the Council's financial accounts, and with the timely engagement of responses to external audit requests for information and queries. These areas are crucial to ensuring the audit of the Council's accounts can be completed in a timely manner. Although the Council has committed to improvement in this area, we have experienced similar issues in completing our audit of the Council's 2021-22 accounts which currently remains ongoing.

# 1. Headlines

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## Financial Statements continued

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As we have noted previously, as a local audit team the only audit where we experience challenges on delivery is at Leeds. The ongoing 2021-22 audit, which was originally planned for completion in September 2023, has resulted in the need to push back the start of the 2022-23 accounts audit into the New Year. As such, we have now escalated our previous improvement level recommendations in this area to a key recommendation in the Auditor's Annual Report.

Additionally, there is a national issue across the sector in terms of pension valuations. The triennial valuations for local government pension funds have recently been published. These valuations, which are at 31 March 2022, provide updated information for the net pension liability on employer balance sheets as at 31 March 2022. To ensure the Council's accounts for 2021-22 remain up to date, management has requested and received a revised IAS19 report from their actuary, detailing what impact this updated information has on its net pension liability disclosures at 31 March 2022. In addition, auditors of employer bodies affected by this issue as is the case at Leeds City Council, are contacting pension fund auditors to request that they perform testing on the triennial review source data. Whilst the Council has received the revised IAS 19 report, the pension fund auditors have yet to complete their work. [This work has now been completed by the pension fund auditor which we are currently reviewing.](#) We will need to have completed all our pensions work on the triennial valuation at 31 March 2022, including reviewing the findings of the pension fund auditor before we are able to conclude our work and issue our audit opinion.

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## Value for Money (VFM) arrangements

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Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have now completed our 2021-22 Value for Money work at the Council and have issued our Auditor's Annual Report on 8 March 2023. We did not identify any key recommendations from our work, however, we made five improvement recommendations to further develop the Council's existing arrangements. The finalised Auditor's Annual Report was presented to the Corporate Governance and Audit Committee at its meeting on 20 March 2023.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our initial planning work identified no significant VFM weaknesses in the Authority's arrangements and this was confirmed in our finalised Auditor's Annual Report.

Looking ahead to our VFM work for 2022-23, we expect to commence this during the summer with a view to reporting our findings to the Corporate Governance and Audit Committee in November 2023. [Our 2022-23 Value for Money work is also now complete and our Auditor's Annual Report for 2022-23 will be presented to the Corporate Governance and Audit Committee meeting on 27 November 2023. In our Auditor's Annual Report, we have escalated two previously reported areas to key recommendations \(financial sustainability and arrangements to prepare and engage with external audit on the accounts audit\) along with a further seven improvement recommendations to further enhance existing controls/arrangements at the Council. Further detail can be seen in the 2022-23 Auditor's Annual Report.](#)

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

Whilst we have completed our Value for Money work at the Council, our audit work on the Council's financial statements is still on-going, once this is complete, we expect to issue our audit opinion by 30 September 2023.

Subject to the completion of the Council's Whole of Government Accounts (WGA) submission, we expect to be in a position to issue our audit certificate thereafter.

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## Significant Matters

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The publication of the triennial valuations for local government pensions provide updated information for the net pension liability on employer balance sheets as at 31 March 2022. To ensure the Council's accounts for 2021-22 remain up to date, management has requested and received a revised IAS19 report from their actuary. We will need to revisit our work on pensions to consider the impact of this triennial valuation along with the any findings from the auditors of the West Yorkshire Pension Fund. [We are currently reviewing the revised IAS19 report and the work undertaken by the pension fund auditor.](#)

# 2. Financial Statements

## Overview of the scope of our audit

This Audit Findings (ISA260) Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice (‘the Code’). Its contents have been discussed with management and will be presented to the Corporate Governance and Audit Committee on 24 July 2023. [The updated version of this ISA260 report will be presented to CGAC on 27 November 2023.](#)

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

## Conclusion

Our audit work on your draft financial statements currently remains on-going, subject to the completion of outstanding work, we anticipate issuing an unqualified audit opinion by [15 December 2023. The achievement of this date is dependant on resolving the remaining outstanding matters from the audit including:](#)

- completing the remaining elements of our work including on PPE, pension fund assets and liabilities, payables and receivables, payroll costs, journals, grant income, operating expenditure, housing benefits, PFI and remuneration disclosures
- receipt of the updated 2021-22 draft financial statements incorporating all adjustments made to the 2020-21 audited financial statements
- review of the updated IAS 19 report (and the pension fund auditor's findings) reflecting the triennial valuation as at 31 March 2022 and the impact on the Council's financial statements. [We have received the pension fund auditor's work on the triennial review data testing which we are currently reviewing](#)
- completion of our internal quality review processes, including final reviews of the file by both the Engagement Manager and Engagement Lead, specifically in respect of significant audit risks of PPE valuation, pension fund liability and journals testing
- reviewing the final version of the financial statements, Narrative Report and Annual Governance Statement
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.

# 2. Financial Statements



## Our approach to materiality

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

Materiality levels remain the same as reported in our Audit Plan dated 22 September 2022.

The materiality levels are shown in the table alongside.

Materiality area	Amount (£000)	Qualitative factors considered
Materiality for the financial statements	£26,898	We have determined materiality at 1.3% of gross operating expenditure for the year. We consider this as the most appropriate criteria given stakeholders interest in the Council delivering its budget. There are no changes to this threshold or benchmark to that set out in our Audit Plan dated 22 September 2022.
Performance materiality	£18,828	Assessed to be 70% of financial statement materiality.
Trivial matters	£1,345	This equates to 5% of materiality. This is our reporting threshold to the Corporate Governance and Audit Committee for any errors identified.
Materiality for senior officer remuneration disclosures	£25	The senior officer remuneration disclosures in the Financial Statements have been identified as an area requiring specific materiality due to its sensitive nature. There are no changes to this threshold from our Audit Plan dated 22 September 2022.





# 2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

## Risks identified in our Audit Plan

## Commentary

### Management override 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 Authority 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 have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work in this area remains ongoing, however, to date, has not identified any issues in respect of management override of controls. We will provide a verbal update to the Audit Committee on 24 July and confirm at September's Audit Committee meeting should any significant issues arise from completing our work in this area. [This work currently remains ongoing, however, no matters have arisen to date. We will provide a verbal update to the Corporate Governance and Audit Committee on 27 November should any significant issues arise from completing our work in this area.](#)



# 2. Financial Statements - Significant risks

## Risks identified in our Audit Plan

## Commentary

### 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). 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 part of our final accounts audit process, we have reconsidered our rebuttal of both revenue and expenditure recognition and consider the rebuttal to still remain appropriate. Notwithstanding that we have rebutted these risks we have undertaken a significant level of work on the Council's revenue streams, as they are material to the financial statements audit.

As part of our audit work, we have:

#### Accounting policies and systems

- Evaluated the Council's accounting policies for recognition of income and expenditure for its material income and expenditure streams and compliance with the CIPFA Code
- Updated our understanding of the Council's business processes associated with accounting for income and expenditure.

#### Fees, Charges and other service income

- Commenced our work to 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 conducted substantive analytical procedures
- For other grants we are sample testing items for supporting evidence and checking the appropriateness of the accounting treatment is in line with the CIPFA Code.

#### Expenditure

- Commenced our work to agree, on a sample basis, non pay expenditure and year end payables to supporting evidence
- Commenced detailed substantive analytical procedures on pay expenditure.

We are also carrying out appropriate audit procedures to ascertain that recognition of income and expenditure is in the correct accounting period using cut off testing.

Whilst our audit work remains on-going, there are no issues arising to date that require reporting to the Corporate Governance and Audit Committee. We will update the Committee at its September meeting on any matters arising once our work is concluded. [This work currently remains on-going, however, no matters have arisen to date.](#)



# 2. Financial Statements - Significant risks

## Risks identified in our Audit Plan

## Commentary

### 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 billion) 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, including council dwellings as a significant risk, which was one of the most significant assessed risks of material misstatement.

As part of our work we have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation experts
- discussed with the valuers the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding
- engaged 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
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register
- evaluated 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
- considered, 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 have consider the arrangements management has used to ensure the valuation remains materially appropriate as at 31 March 2022 from this date.

The Council moved its valuation date from 30 September to 1 January in 2020-21. This approach requires an estimation from 1 January to 31 March at the year end to ensure there has not been a material change in asset values. There is a risk that asset values are not correctly valued in the financial statements.

We reported this matter last year and that 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 agreed to consult with the Council's valuers. The valuation date used for the 2021-22 accounts remains the same, 1 January 2022. We consider management should revise its valuation date for the valuation of fixed assets to the year end, 31 March each year and have again made a recommendation in this regard.

Other than this matter, our audit work to date has not identified any other issues in respect of the valuation of land and buildings. [Our work on the valuation of land and buildings including Council dwellings currently remains on-going. No matters have arisen to date.](#)

# 2. Financial Statements - Significant risks

## Risks identified in our Audit Plan

## Commentary

### 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 £1.58 billion) in the Council's balance sheet and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates.

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 have:

- updated 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 evaluated the design of the associated controls
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability
- tested 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
- undertook 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
- obtained 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.

Our audit work to date has not identified any issues in respect of valuation of the pension fund liability.

However, there is a national issue across the sector in terms of pension valuations which has recently arisen. The triennial valuations for local government pension funds have recently been published. These valuations, which are at 31 March 2022, provide updated information for the net pension liability on employer balance sheets as at 31 March 2022. To ensure the Council's accounts for 2021-22 remain up to date, management has now received a revised IAS19 report from their actuary, detailing what impact this updated information has on its net pension liability disclosures at 31 March 2022. We have yet to review this along with the findings from the pension fund auditor once they have performed their testing on the triennial review source data.

Once we have reviewed the revised IAS19 report from the actuary, along with the additional testing from the West Yorkshire pension fund auditor, we will be able to update our audit work relating to the pension fund net liability. We aim to complete this information and report our findings to the September meeting of the Corporate Governance and Audit Committee.

[Our audit work on the pension fund net liability is progressing and we have raised a number of queries for management to provide responses. We have also received the pension fund auditor's work on the triennial review data testing which we are currently reviewing. No issues have arisen from our work to date.](#)

## 2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Auditor commentary and view
<p><b>IFRS 16 implementation</b></p> <p>Following consultation and agreement by FRAB, the Code will provide for authorities to opt to apply IFRS 16 in advance of the revised implementation date of 1 April 2024. If management elect to implement IFRS 16 from April 2022 (early adoption) then in the 2021-22 accounts as a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases, along with the estimated impact of IFRS 16 on the accounts</p>	<p>The Council has decided not to adopt the standard early in its financial statements. The Council has included a high level reference to IFRS16 in its accounts at Note 26, New Accounting Standards not yet implemented.</p> <p>Management and the audit team will liaise during the 2022-23 audit to ensure the requirements of the new standard are being followed and plans are in place for this issue to be adequately reported in the 2023-24 accounts and fully adopted in the 2024-25 accounts.</p>
<p><b>Recognition and Presentation of Grant Income</b></p> <p>The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income.</p> <p>The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income.</p>	<p>Note 8, General Government Grants in the accounts includes a detailed analysis of grant income covering grant income recognised through the Comprehensive Income and Expenditure Statement (CIES) as well as government grants included in each service line within the Net Cost of Services of the CIES.</p> <p>Our audit testing to date of grant income relating to 2021-22 has not identified any non-compliance with the requirements for grant accounting as specified in the Code. Our work involved reviewing the Council's treatment of grants including Covid-19 related grants as either agent (where the Council passes on the grant without having control over its award) or principal (where the Council determines the grant award to be provided). Grant awards where the Council is acting as principal are recorded within the Council's CIES whereas grants where the Council has acted as agent are not. Our work also reviewed the appropriateness of the disclosures made and we undertook sample testing of a number of grants, no issues have arisen from our work to date. <a href="#">Our work on revenue grants is now complete and identified no issues, our work on capital grants remains on-going.</a></p>
<p><b>IT General Controls (ITGC) work</b></p> <p>As part of our audit procedures on the financial statements, we conducted our ITGC work. This was targeted on general IT controls and was performed by our IT specialists. The objective was to identify any significant deficiencies in IT general controls that could lead to any material errors in the financial statements.</p>	<p>Our IT General Controls work this year identified the following weaknesses:</p> <ul style="list-style-type: none"><li>• user accounts were identified with inappropriate access rights in FMS</li><li>• user accounts were identified with inappropriate access rights in SAP</li><li>• inadequate controls over privileged user accounts in SAP, FMS, and Capita Academy applications and databases</li><li>• insufficient evidence of Implementation of Cyber Security Controls.</li></ul> <p>Our detailed findings were reported in our IT Audit Findings Report dated 1 December 2022 and included management responses to each of the weaknesses noted. Our IT Audit Findings Report was presented to the Corporate Governance and Audit Committee at its meeting on 20 March 2023.</p>

## 2. Financial Statements – new issues and risks

Issue	Auditor commentary and view
<p><b>Valuation of Infrastructure Assets</b></p> <p>The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. In addition, the Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period.</p> <p>The Council has material infrastructure assets of some £1.19 billion at 31 March 2022, there is therefore a potential risk of material misstatement related to the infrastructure balance.</p>	<p>Our review of the Council’s arrangements for accounting for infrastructure assets noted that its arrangements, as with most other authorities, does not fully comply with the requirements of the CIPFA Code of Practice on Local Authority Accounting and International Accounting Standard (IAS) 16, which establishes the principles for recognising property, plant and equipment as assets, measuring their carrying amounts, and measuring the depreciation charges and impairment losses.</p> <p>The Council, in common with most other local authorities capitalises additional expenditure on infrastructure assets, for example on resurfacing roads. However, the amount written out against the gross value of infrastructure assets and depreciation following these improvement works may not fully write out the appropriate proportion of the improvements made. As a result, there is a risk that the Council’s Net Book Value (NBV) for infrastructure assets may be materially misstated.</p> <p>The valuation of Infrastructure assets in local government continues to be an on-going national issue. The Department for Levelling Up, Housing and Communities (DLUHC) issued a Statutory Instrument in December 2022 which provides a statutory override relating to the valuation of infrastructure assets given most authorities do not fully comply with current accounting requirements on infrastructure assets. This statutory override is available up to and including 2023-24.</p> <p>The SI 2022 number 1232 came in to force on 25 December 2022. As a result, CIPFA updated the Code providing a temporary relief so that local authorities are not required to report the gross book value and accumulated depreciation for infrastructure assets.</p> <p>In the Council’s 2020-21 financial statements (Note 15), the Council removed the gross cost and accumulated depreciation for infrastructure assets, showing only the net book value. For 2021-22, the Council had drafted its draft financial statements prior to the issuing of the Statutory Instrument in December 2022, and as such included both the gross cost and accumulated depreciation for infrastructure assets. We understand officers are updating this disclosure to show only the net book values for 2021-22. <a href="#">We are currently awaiting an updated set of accounts for 2021-22.</a></p>

# 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management’s approach	Audit Comments	Assessment
Council Dwellings valuation: £2.38 billion	<p>The Council is required to revalue its Council housing in accordance with Department of Levelling up Housing and Communities (DLUHC) Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties.</p> <p>The Council engaged its in-house valuer to complete the valuation of these properties. The valuation was at 1 January 2022 and valued Council Housing at £2,381m, a net increase of £171m from 2020-21 (£2,211m). The increase is principally due to additions (£93.7m) and revaluations (£74.9m).</p>	<ul style="list-style-type: none"> <li>The Council’s valuer is RICS qualified and valued the entire housing stock using the beacon methodology, in which a detailed valuation of representative property types was then applied to similar properties</li> <li>Our work indicated that this methodology was applied correctly to the 2021-22 valuation</li> <li>We have assessed the valuer to be competent, capable and objective in carrying out the valuations</li> <li>We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate and have no issues to report</li> <li>We have agreed the HRA valuation report to the accounts</li> <li>We have compared the valuation movements with the Gerald Eve (property valuation specialists) national report and held discussions with our own valuation auditor’s expert. These discussions are still on going. We have also challenged management and the Council’s valuation expert on valuation differences identified through our sensitivity analysis work using other relevant indices. These discussions remain on-going and we intend make our conclusions before we issue the audit opinion.</li> </ul> <p>There are no issues arising to date from our work that we wish to bring to the attention of management or the Corporate Governance and Audit Committee.</p>	<p>We consider management’s process is appropriate and key assumptions are neither optimistic or cautious</p> <p><b>(Green)</b></p> <p><b>TBC - Work ongoing</b></p>

## Assessment

- **[Red]** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **[Amber]** We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic or cautious
- **[Green]** We consider management’s process is appropriate and key assumptions are neither optimistic or cautious



# 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management’s approach	Audit Comments	Assessment
<p>Other Land and Buildings valuation: £2.68 billion</p>	<p>Other land and buildings comprises £2,309m of specialised assets such as schools and libraries as well as the PFI Recycling and Energy Recovery Facility, which are required to be valued at depreciated replacement cost (DRC), reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.</p> <p>The remainder of other land and buildings (£371m) are not specialised in nature and are required to be valued at existing use value (EUV - £61m) for example car parks, and open market value (OMV - £310m) for example Council Offices at the year end. The Council has engaged its in-house valuer to complete the valuation of properties as at 1 January 2022 with two external valuers valuing the Waste to Energy Plant. Approximately 90% of total assets (by value) were revalued during 2021-22.</p> <p>Management has also considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 31 March 2022, to determine whether there has been a material change in the total value of these properties.</p> <p>The total year end valuation of Other land and buildings was £2,680m.</p>	<ul style="list-style-type: none"> <li>We have assessed the Council’s in-house valuer, and the two external valuers to be competent, capable and objective</li> <li>We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate, including floor areas and have no issues to report</li> <li>The valuation methods remain consistent with the prior year. Whilst we recognise the progress made by the Council in moving its valuation date from 30 September in 2019 to 1 January in 2021, we consider it appropriate for the valuation date to be at the year end (31 March) providing a more accurate valuation position. We have raised a recommendation in this respect in the Action Plan at Appendix A.</li> <li>In relation to assets not revalued in the year, we have compared the Gerald Eve (valuation specialists) property valuation report and held discussions with our own valuation auditor’s expert. These discussions are still on going. We have also challenged management and the Council’s valuation specialists on valuation differences identified through our sensitivity analysis work using other indices. These discussions are still on-going and we intend make our conclusions before we issue the audit opinion.</li> </ul> <p>There are no issues arising to date from our work that we wish to bring to the attention of management or the Corporate Governance and Audit Committee.</p>	<p>We consider management’s process is appropriate and key assumptions are neither optimistic or cautious</p> <p><b>(Green)</b> <b>TBC - Work ongoing</b></p>

# 2. Financial Statements - key judgements and estimates

Significant judgement or estimate

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
<p><b>Net pension liability (Council)</b> £1.578 billion</p>	<p>Per the draft accounts, the Council's net pension liability at 31 March 2022 is £1,578m (PY £2,155m) comprising the West Yorkshire Local Government Pension Scheme.</p> <p>The Council used AON Hewitt to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed at 31 March 2019, utilising key assumptions such as life expectancy, discount rates, salary growth and pension increase rate.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £577m net actuarial gain during 2021-22. The improved position results mainly from an increase in pension asset values of £336.5m and a reduction in pension liabilities of £234.2m.</p> <p>As noted earlier, there is a national issue across the sector in terms of pension valuations. The triennial valuations for local government pension funds have recently been published. These valuations, which are at 31 March 2022, provide updated information for the net pension liability on employer balance sheets as at 31 March 2022. To ensure the Council's accounts for 2021-22 remain up to date, management has requested and received a revised IAS19 report from their actuary, detailing what impact this updated information has on its net pension liability disclosures at 31 March 2022. We have yet to review the revised figures and disclosures as well as consider the additional work undertaken by the West Yorkshire pension fund auditor.</p>	<ul style="list-style-type: none"> <li>We have assessed the Council's actuary, AON Hewitt, to be competent, capable and objective</li> <li>We have performed additional tests in relation to the accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the roll forward calculation carried out by the actuary and have no issues to raise.</li> <li>We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – please see the table below for our comparison of actuarial assumptions. The PwC report has also indicated that they are comfortable with AON Hewitt's methodologies used to establish assumptions and they will produce reasonable assumptions as at 31 March 2022 for all employers.</li> </ul> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.70% to 2.80%</td> <td>Assumption appears reasonable</td> <td>● Green</td> </tr> <tr> <td>Pension increase rate</td> <td>2.80% to 3.1%</td> <td>Assumption appears reasonable and methodology appropriate.</td> <td>● Green</td> </tr> <tr> <td>Salary growth</td> <td>1.00% p.a. to 1.50% p.a. above CPI</td> <td>In line with expectation.</td> <td>● Green</td> </tr> <tr> <td>Life expectancy – Males</td> <td>Pensioners: 20.7 – 22.9 Non-pensioners: 22.5 – 24.7</td> <td>Overall mortality assumptions appear reasonable.</td> <td>● Green</td> </tr> <tr> <td>Life expectancy – Females</td> <td>Pensioners: 23.6 – 25.4 Non-pensioners: 25.0 – 27.1</td> <td>Overall mortality assumptions appear reasonable.</td> <td>● Green</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate</li> <li>We have confirmed there were no significant changes in 2021-22 to the valuation method</li> <li>Whilst our audit work remains on-going, no matters have arisen to date.</li> <li>We are yet to review the revised IAS19 report from AON Hewitt along with the outcome of the work undertaken by the auditors of the West Yorkshire Pension Fund. Our audit work will review the revised figures and disclosures.</li> </ul>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.70% to 2.80%	Assumption appears reasonable	● Green	Pension increase rate	2.80% to 3.1%	Assumption appears reasonable and methodology appropriate.	● Green	Salary growth	1.00% p.a. to 1.50% p.a. above CPI	In line with expectation.	● Green	Life expectancy – Males	Pensioners: 20.7 – 22.9 Non-pensioners: 22.5 – 24.7	Overall mortality assumptions appear reasonable.	● Green	Life expectancy – Females	Pensioners: 23.6 – 25.4 Non-pensioners: 25.0 – 27.1	Overall mortality assumptions appear reasonable.	● Green	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious <b>(Green)</b> <b>TBC - Work ongoing</b></p>
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# 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<b>Grants Income:</b> <b>£1.38 billion</b> <b>(PY £1.42 billion)</b>	<p>Management has taken into account three main considerations in accounting for grants:</p> <ol style="list-style-type: none"> <li>whether the Council is acting as the principal or agent and particularly whether it controls the goods or services before they transfer to the service recipient. Management's assessment needs to consider all relevant factors such as who bears credit risk and responsibility for any overpayments, who determines the amount, who sets the criteria for entitlement, who designs the scheme and whether there are discretionary elements.</li> <li>whether there are conditions outstanding (as distinct from restrictions) that would require the grant to be recognised as receipt in advance, otherwise grant should be recognised as income</li> <li>whether the grant is a specific or non-specific grant. General un-ringfenced grants are disclosed on the face of the CIES, whereas ringfenced grants are required to be credited to service revenue accounts.</li> </ol> <p>There may be judgements over the accounting treatment. Different conclusions may be reached by councils depending on how they have applied any discretion in administering the schemes and application of Code guidance.</p>	<p>The Council receives a number of grants and contributions and is required to follow the requirements set out in the Code. The main considerations are to determine whether the Council is acting as principal or agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income.</p> <p>As part of our audit work, we have:</p> <ul style="list-style-type: none"> <li>substantively tested a sample of grants across categories and reviewed management's assessment as to whether the Council is acting as the principal or agent</li> <li>for the samples selected, reviewed the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income</li> <li>assessed for the sample of grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES or not</li> <li>assessed the adequacy of disclosure of grants received and judgement used by management as part of our detailed testing.</li> </ul> <p>Our work to date has not identified any matters to report.</p> <p><i>Our work on revenue grants is now complete and identified no issues, our work on capital grants remains on-going, no issues have been noted to-date.</i></p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p> <p><b>(Green)</b></p> <p><b>TBC - Work ongoing</b></p>

# 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p><b>Minimum Revenue Provision:</b> £68.7m (GF £61.7m &amp; HRA £7.0m) (PY £37.4m)</p>	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance</p> <p>The year end MRP charge for 2021-22 was £68.7m, a net increase of £31.3m from the prior year (£37.4m) and reflects the end of the Council's ability to use savings from overpayment of MRP in earlier years.</p>	<p>The MRP charge is an area of increasing focus for local authority external auditors following recent highly publicised financial challenges at certain local authorities where MRP charges were found to be inappropriate.</p> <p>We understand the increase in MRP of £31.3m between 2020-21 and 2021-22 is due principally to the end of savings available from earlier years when MRP had been overpaid.</p> <p>For our 2021-22 audit, we compared the MRP charge as a percentage of the Capital Financing Requirement. Typically, we would expect the charge to be around 2% representing an asset life of 50 years. At Leeds for 2021-22, the MRP charge is £61.7m against a Capital Financing Requirement of £2,450m, which is 2.51% (or equivalent to an average asset life of 40 years) and is in accordance with our expectation of some 2% or higher.</p> <p>We will continue to monitor the Council's MRP calculation as part of our 2022-23 audit work. <a href="#">Our Auditor's Annual Report for 2022-23 included on the Corporate Governance and Audit Committee agenda for its meeting on 27 November includes further commentary and analysis of the Council's MRP arrangements.</a></p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious <b>(Green)</b></p>
<p><b>Investment Properties valuation:</b> £83.3m (PY £101.4m)</p>	<p>Investment properties are those that are used to earn rentals or for capital appreciation. Investment properties are measured at fair value. The fair values for investment properties are obtained from market valuations.</p> <p>The value of the Council's investment properties has fallen from £101.4m at 31 March 2021 to £83.3m at 31 March 2022. The reduction is mainly due to disposals of £17.8m during the year relating to Logic Leeds industrial units (£17.2m) and the Kirkstall District Centre (£0.6m).</p>	<p>Our audit work on investment properties remains on-going and includes:</p> <ul style="list-style-type: none"> <li>evaluating management's processes and assumptions for the calculation of the valuation, the instructions issued to valuation experts and the scope of their work</li> <li>evaluating the competence, capabilities and objectivity of the valuation expert</li> <li>discussing with the valuer the basis on which the valuation was carried out including the use of market rental information</li> <li>challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>engaging our own auditor's expert valuer to assess the instructions issued to the Authority's valuer, the Authority's valuer's reports and the assumptions that underpin the valuations</li> <li>testing revaluations made during the year to see if they had been input correctly into the Authority's asset register</li> <li>considered, 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.</li> </ul> <p>Whilst our audit work remains on-going, to date, no issues have arisen in relation to investment properties.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious <b>(Green)</b> <b>TBC - Work ongoing</b></p>

# 2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Council's Corporate Governance and Audit Committee and the Chief Officer – Financial Services. We have not been made aware of any material incidents in the year and no other issues have been identified during the course of our audit.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
<b>Written representations</b>	A standard letter of representation has been requested from the Council. The letter of management representation is included at Appendix F.
<b>Confirmation requests from third parties</b>	We requested from management permission to send a confirmation request to the Council's bankers, and entities who were involved with the Council's investments and borrowings. This permission was granted and the requests were sent and responded to with positive confirmations.
<b>Accounting practices</b>	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review to date has found no material omissions in the financial statements. Our work also identified a small number of presentational disclosure amendments which have been processed by management and these are set out at Appendix C.
<b>Audit evidence and explanations / significant difficulties</b>	<p>As in previous years, working papers whilst showing the build up of the numbers in the accounts and related notes, have not always been reconciled to the FMS general ledger system. This has required additional audit work or further requests to management to reconcile adding additional time to the audit process. We have again raised a recommendation in this regard. Following discussions with management and to encourage finance officers across the Council to better understand the importance and need to prepare good quality working papers which are comprehensive, reconcile to the FMS system and are easy to follow, we ran an on-line workshop on 25 April 2023 where we used examples to illustrate the content of good quality working papers. It was positive to note the workshop was attended by over 100 finance officers. We would hope to see tangible improvements in the working papers provided to support our 2022-23 audit due to commence later this year.</p> <p>The delay to the completion of the 2020-21 financial statements audit which was concluded on 17 February 2023 has meant that audit work on the 2021-22 audit only commenced from this point. At the time we concluded the 2020-21 audit, finance officers were in the process of completing work on the 2023-24 budget which delayed the start of our audit work for 2021-22. Whilst we undertook some work in April, our audit work in local government stopped during May and June to enable us to complete audits with NHS organisations. We hoped to recommence audit work in late June/early July but understand the Council's</p>



## 2. Financial Statements - other communication requirements

### Audit evidence and explanations / significant difficulties continued

draft 2022-23 accounts were delayed and finance officers were still drafting these. We understand the draft 2022-23 accounts will be drafted by mid July after which officers should be available to support the 2021-22 audit again. However, this falls within the summer period where both our, and the Council's staff are likely to be on annual leave over the next few months. Whilst we will endeavour to complete our audit work and conclude the audit by 30 September 2023, this remains a risk due to the national issue across the sector in terms of the triennial pension valuation which has added additional work, along with the availability of officers and our staff during the summer period. Any delays to the completion of the 2021-22 audit is likely to also delay the start of audit work on the Council's 2022-23 financial statements, which we had initially planned to complete and report to the Corporate Governance and Audit Committee in early February 2024, however, given the matters noted above, Easter 2024 now looks a more realistic target completion date.

Since our working draft report was presented to the Corporate Governance and Audit Committee in July 2023, audit work has continued to progress, however, there remains challenges within the capacity of the finance team to provide working papers and responses to outstanding queries in a timely manner. This has resulted in slow progress to complete the 2021-22 audit, for example, we issued the findings from our Central Technical Team's 'Hot Review' of the Council's draft 2021-22 accounts to management on 1 November 2022, however, the Council's initial responses were not provided to us until 20 October 2023. We meet fortnightly with the finance team to discuss outstanding audit matters and prioritise areas to be addressed.

As reported in the Headlines Section, our Auditor's Annual Report for 2022-23 notes that we have reported for several years the concerns and challenges in the preparation and provision of working papers to support the external audit of the Council's financial accounts, and with the timely engagement of responses to external audit requests for information and queries. These areas are crucial to ensuring the audit of the Council's accounts can be completed in a timely manner. Although the Council has committed to improvement in this area, we have experienced similar issues in completing the Council's 2021-22 audit, as such, we have now escalated our previous improvement level recommendations in this area to a key recommendation in the Auditor's Annual Report.

As a local audit team, the only audit where we experience challenges on delivery is at Leeds. The ongoing 2021-22 audit, which was originally planned for completion in September 2023, has resulted in the need to push back the start of the 2022-23 accounts audit into the New Year.

We are now targeting to complete our audit work and issue our audit opinion by 15 December 2023 for 2021-22. However, this is dependent on adequate capacity being made available within the finance team to provide working papers and respond to requests for information in a timely manner. Completion of the 2021-22 accounts audit by Christmas is critical to ensuring we can commence the 2022-23 accounts audit immediately in the New Year.

As we have reported over recent years, and in our workshops to members, there is a national issue in terms of the completion of local authority accounts, there are various reasons for this which equally apply to our audit of Leeds - with the added challenge of the Council's ageing in-house ledger system not being conducive to a modern data interrogation audit approach. We note the Council's procurement of a new financial ledger system which is expected to go live in 2024.

# 2. Financial Statements - other communication requirements



## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"><li>• 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 entity'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, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li><li>• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.</li></ul> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"><li>• the nature of the Council and the environment in which it operates</li><li>• the Council's financial reporting framework</li><li>• the Council's system of internal control for identifying events or conditions relevant to going concern</li><li>• management's going concern assessment.</li></ul> <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"><li>• a material uncertainty related to going concern has not been identified</li><li>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li></ul>

# 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
<b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. Our work noted some minor presentational omissions from the <a href="#">Narrative report</a> which have been adequately rectified by management. These are reported at Appendix C. We plan to issue an unmodified opinion in this respect as reported at Appendix E.</p>
<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"><li>• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li><li>• if we have applied any of our statutory powers or duties</li><li>• where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness(es).</li></ul> <p>We have nothing to report on these matters.</p>
<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>The NAO requires this work to be completed once the audit opinion is provided on the financial statements. This work currently remains outstanding <a href="#">and is likely to be delivered in early 2024</a>.</p>
<b>Certification of the closure of the audit</b>	<p>We intend to delay the certification of the closure of the 2021-22 audit of the Council in the audit report, as detailed at Appendix E, until we have completed our work on the WGA consolidation exercise mentioned above.</p>



# 3. Value for Money arrangements

## Approach to Value for Money work for 2021-22

The National Audit Office issued its 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 the three specified reporting criteria.



### 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

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

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# 3. VFM - our procedures and conclusions

We have now completed our Value for Money work at the Council and issued our Auditor's Annual Report on 8 March 2023. We did not identify any key recommendations from our work, however, we made five improvement recommendations to further develop the Council's existing arrangements. The finalised Auditor's Annual Report was presented to the Corporate Governance and Audit Committee at its meeting on 20 March 2023.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our initial planning work identified no significant VFM weaknesses in the Authority's arrangements and this was confirmed in our finalised Auditor's Annual Report.

Our 2022-23 Value for Money work is also now complete and our Auditor's Annual Report for 2022-23 will be presented to the Corporate Governance and Audit Committee meeting on 27 November 2023. In our Auditor's Annual Report, we have escalated two previously reported areas to key recommendations (financial sustainability and arrangements to prepare and engage with external audit on the accounts audit) along with a further seven improvement recommendations to further enhance existing controls/ arrangements at the Council. Further detail can be seen in the 2022-23 Auditor's Annual Report. Please note that the issues included within the 2022-23 Auditor's Annual Report do not impact on our ability to conclude the 2021-22 accounts audit in December 2023.



# 4. Independence and ethics

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed at Appendix D.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

## Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following services were identified as well as the threats to our independence and associated safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
<b>Audit related:</b>			
No services provided	-	-	-
<b>Non-audit related:</b>			
No services provided	-	-	-

# Appendices

# A. Action Plan – Audit of Financial Statements

We have identified two recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on this recommendation during the course of the 2022-23 audit. The matter reported here is limited to those deficiencies that we have identified during the course of our audit and that we have concluded is of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<p>●</p> <p>Medium</p>	<p><b>1. Valuation of land and buildings:</b></p> <p>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.</p> <p>There is a risk that asset values are not correctly valued in the financial statements.</p>	<p>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.</p> <p><b>Management response:</b></p> <p><i>As agreed in advance of the 2021/22 accounts process the Council again consulted with its valuers on the practicality of moving the valuation date. The valuers' view was that it would not be possible to produce reliable valuations using robust data as at the 31<sup>st</sup> March date within the timescales required for the draft accounts. Input data which is needed for valuations is not available for some time after any given valuation date, and the Council has above £5bn of assets held at current value. Consequently, the Council has continued to use a 1<sup>st</sup> January valuation date.</i></p>
<p>●</p> <p>Medium</p>	<p><b>2. Working Papers:</b></p> <p>As last year, whilst working papers show the build up of the numbers in the accounts, there is often a gap in reconciling these to the FMS system. This requires additional work to agree or further requests to management for additional information. Without appropriately reconciled working papers to the FMS system, the audit process will take longer than necessary.</p>	<p>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.</p> <p><b>Management response:</b></p> <p><i>Agreed. Working papers need to be subject to review. The requirement to prepare appropriate working papers has been reinforced within the Financial Management function and where necessary changes have been made to ensure that the reconciliation back to FMS is much clearer. These improvements have been recognised informally by Grant Thornton staff currently undertaking the audit.</i></p>

# B. Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2020-21 financial statements, which resulted in six recommendations being reported in our 2020-21 Audit Findings Report. We have followed up on the implementation of our recommendations and note progress alongside.

## Assessment

- ✓ Action completed
- X Not yet addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p><b>1. Asset valuations (Raised January 2022)</b></p> <p>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</p> <p>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.</p>	<p>We understand that arrangements have now been strengthened with an increased level of management review. This change is likely to impact on the 2022-23 audit.</p>
X	<p><b>2. Group account disclosure (Raised January 2022)</b></p> <p>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.</p> <p>Without this information, a reader would not be aware of the entities the Council controls and their financial significance to the Council.</p>	<p>Our audit work indicates the further disclosures recommended have not been actioned by management.</p> <p><b>Management Comments:</b></p> <p>Please see response to the same recommendation on Page 31.</p>

**Note:** The IT recommendations raised in our Audit Findings Report last year have been followed up and progress reported within our IT Audit Findings Report presented to the Corporate Governance and Audit Committee on 20 March 2023.

# B. Follow up of prior year recommendations continued

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p><b>3. Valuation of land and buildings (Raised January 2021 &amp; January 2022)</b></p> <p>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.</p> <p>There is a risk that asset values are not correctly valued in the financial statements. The valuation date should be moved to 31 March each year.</p>	<p>Our audit work indicates this recommendation has not been actioned by management.</p> <p><b>Management Comments:</b></p> <p>Please see our comments to a similar recommendation on Page 26</p>
On-going	<p><b>4. Working Papers (Raised January 2021 &amp; January 2022)</b></p> <p>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.</p>	<p>Our audit work indicates that continued action is needed to provide a reconciliation to the FMS system for all working papers. We expect to see the improvements in working papers come through for our 2022-23 audit later this year.</p>
✓	<p><b>5. Net Pension Liabilities (Raised January 2023)</b></p> <p>During 2020-21, the Council had a large number of redundancies as part of the Council's early leaver programme. These redundancies should have been notified by management to the West Yorkshire Pension Fund and ultimately the actuary to allow a recalculation of the net pension liability. As this was not done, the net pension liability was understated by £29.06m.</p>	<p>We understand arrangements are now in place to notify the West Yorkshire Pension Fund and Actuary of major changes to employee numbers to ensure the pension liability remains as accurate as possible.</p>
On-going	<p><b>6. Private Finance Initiative – Note 11 (Raised January 2023)</b></p> <p>Our review of the Council's 13 PFI scheme models noted that:</p> <ul style="list-style-type: none"> <li>• £177m of lifecycle costs had not been disclosed in Note 11 (payments included in PFI models but not included in the disclosure Note)</li> <li>• there was a possible net overstatement of £40.6m for revenue service payments during the lifetime of the PFI schemes</li> <li>• the Council's PFI models had not been updated for actual inflationary increases.</li> </ul> <p>The Council should review each of these areas and ensure its PFI disclosures fully comply with the requirements of the CIPFA Code of Practice.</p>	<p>Management agreed to include these disclosures within its 2022-23 accounts.</p>



# C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £000	Impact on useable reserves £000
<b>Classification adjustment</b>			
Short term Investments	0	10,000	
Cash equivalents	0	(10,000)	
Reclassification from cash equivalents to short term investments where maturity date is beyond 3 months.			
<b>Overall impact</b>	<b>£Nil</b>	<b>£Nil</b>	<b>£Nil</b>

# C. Audit Adjustments

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Disclosure omission	Auditor recommendations	Adjusted?
<p><b>Audit Fees – Note 12.5</b></p> <p>Audit fees disclosed in Note 12.5 show fees of £282k whereas audit fees for 2021-22 are £280,354.</p>	<p>Audit fees disclosed within Note 12.5 should be amended to £280k.</p> <p><b>Management response:</b> Actioned</p>	TBC
<p><b>Note 12.2c Better Care Fund</b></p> <p>A number of amendments are required to the BCF note as the current figures disclosed are incorrect.</p>	<p>Update Note 12.2c Better Care Fund to show the correct figures.</p> <p><b>Management response:</b> Actioned</p>	TBC
<p><b>Note 12.6 Operating leases</b></p> <p>The disclosures relating to Merion House should be deleted as there are no commitments given the rent has been paid in advance in 2018-19. The Council as last year has not deleted this disclosures.</p>	<p>The Council should update the note and delete the Merrion House disclosure.</p> <p><b>Management response:</b> The Council feels that the current presentation is appropriate within its Statement of Accounts</p>	TBC
<p><b>MIRS</b></p> <p>The Code requires the GF Balance to be shown in the MIRS. Whilst there are columns for GF and GF Earmarked Reserves there is no column for the total GF balance which should be added.</p>	<p>A column should be added to show the total GF balance.</p> <p><b>Management response:</b> The Council feels that the current presentation is appropriate within its Statement of Accounts</p>	TBC
<p><b>Glossary</b></p> <p>The financial statements should include a glossary to explain technical terms used within the accounts.</p>	<p>A glossary should be added to explain technical terms included within the financial statements.</p> <p><b>Management response:</b> Consideration will be given to the inclusion of a glossary.</p>	TBC

# C. Audit Adjustments

Disclosure omission	Auditor recommendations	Adjusted?
<p><b>Explanatory Note 24 Group</b></p> <p>The Council does not produce group accounts but is involved with a number of entities. The accounts disclosure 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.</p>	<p>The Group accounts disclosure should be expanded to include the main financial information for each of the Council's subsidiaries and associate companies.</p> <p><b>Management response:</b></p> <p>The Group accounts disclosure were expanded for the 2020/21 Statement of Accounts following previous Grant Thornton comments. Grant Thornton's further comments on the 2020/21 accounts were considered in the light of the Code's requirements. The Council is satisfied that its existing disclosure is compliant with the Code, which emphasizes that materiality should be key consideration in relation to such disclosures. The Council will re-consider how it can best inform the reader in respect of its non-material interest in group entities after taking into account the longer reporting timescales of those entities.</p>	TBC
<p><b>Note 12.3c – Cost of compulsory redundancies and other leavers</b></p> <p>Pension Strain costs in year total £2.1m. These strain costs have not been included in the table of leavers disclosed in this note.</p>	<p>The disclosure should be updated to include pension strain costs.</p> <p><b>Management response:</b></p> <p>Actioned</p>	TBC
<p><b>Note 20.3 – Deferred Capital Receipts</b></p> <p>Comparatives in note 20.3 are misstated. Repayments should be £807k and write down £167k. Also, for 2021-21 movements repayments should be £811k and write down nil.</p>	<p>The disclosure should be updated to include the correct figures.</p> <p><b>Management response:</b></p> <p>Actioned</p>	TBC
<p><b>Note 22.3 Collection Fund Adjustment Account</b></p> <p>Note 22.3 relating to the Collection Fund Adjustment Account should be amended to disclose movements in year as these are material.</p>	<p>The disclosure should be updated to show movements in the year.</p> <p><b>Management response:</b></p> <p>The Council will action this amendment</p>	TBC
<p><b>Narrative Report</b></p> <p>A number of amendments are required to the Narrative Report to ensure consistency with the Accounts including for example:</p> <ul style="list-style-type: none"><li>• Page v Note 5.2 – Deficit for 2020/21 to be amended from £171.4m to £190.1m to agree with last year's audited accounts.</li><li>• Page vi Note 5.2c(i) - Impairments for previous year to be amended to £8.2m debit (i.e. not reversing) to agree with PPE note 15.1</li><li>• Page vii Note 5.3 – The Council's Net Assets have increased by £960.3m compared to £970.5m currently shown.</li></ul>	<p>The Narrative Report should be updated to ensure consistency with the accounts.</p> <p><b>Management response:</b></p> <p>The Council will action these amendments.</p>	TBC

# C. Audit Adjustments

Disclosure omission	Auditor recommendations	Adjusted?
<p><b>Financial Instruments Note 18.3</b></p> <p>The fair value of long-term debtors amounting to £20,437k had been omitted from the note in error.</p>	<p>The note should be updated to include the long term debtors omitted of £20,437k.</p> <p><b>Management response:</b> Management to provide comments</p>	TBC
<p><b>Note 18.4 Management of risks arising from financial instruments</b></p> <p>This note is identical to the equivalent note in the 2020-21 audited accounts. It should be updated for 2021-22.</p>	<p>The note should be updated for the current year, 2021-22.</p> <p><b>Management response:</b> Agreed to amend.</p>	TBC
<p><b>Note 21.1 Capital Expenditure and Financing</b></p> <p>HRA capitalised interest has not been included in 2021-22. The interest capitalisation figure to be amended from £0.6m to £0.9m (to include £0.3m of HRA capitalised interest) and comparatives amended to £0.8m from £0.5m (to agree with last year's audited accounts).</p>	<p>The disclosure should be updated to include the correct figures.</p> <p><b>Management response:</b> Agreed to amend.</p>	TBC

# C. Audit Adjustments



## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021-22 audit which have not been made within the final set of financial statements. The Corporate Governance and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £000	Impact on useable reserves £000	Reason for not adjusting
NONE	-	-	-	-
Overall impact	£Nil	£Nil	£Nil	-

## Impact of prior year unadjusted misstatements

There were no unadjusted misstatements in 2020-21 .

# D. Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

<b>Audit fees 2021-22</b>	<b>Proposed planned fee</b>	<b>Proposed Final fee</b>
	<b>£</b>	<b>£</b>
Council Audit (see detailed analysis overleaf) – incorporating the scale fee of £184,604 and fee variations of £99,750 as per the Audit Plan dated 22 September 2022.	274,354	284,354
Additional work relating to Pensions Triennial valuation at 31 March 2022	-	6,000
<b>Total audit fees (excluding VAT)</b>	<b>274,354</b>	<b>290,354*</b>

\* Given the significance of the ongoing issues and delays experienced with the audit, we have proposed an additional £10k fee to reflect a proportion of the additional time and costs we have experienced, compared to the fee we reported in the July version of this report. Our work remains ongoing at the time of this report, as does work in respect of the valuation of land and buildings and pensions. We will update management and the Corporate Governance and Audit Committee at the point we conclude our audit with our final proposed audit fee.

Note: All variations to the scale fee (see overleaf) will need to be approved by PSAA. Please also note that DLUHC has continued to set aside £15m of funding to deal with the expected increase in 2021-22 audit fees, a direct response to one of the key findings of the Redmond Review into local authority external audit

The 2021-22 final fees do not currently reconcile to the draft financial statements which show fees of £282k. An amendment to the audit fees included in the draft financial statements in Note 12.5 – Audit Fees is required to show £280k. Management has agreed to make this amendment. This figure now agrees to the fee quoted in the July 2023 ISA260 Report. There is now a reconciling difference of £10k to reflect the additional costs of ongoing delays to the audit.

We confirm that no non-audit or audited related services have been undertaken for the Council.

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
	<b>£</b>	<b>£</b>
NONE	-	-
<b>Total non-audit fees (excluding VAT)</b>	<b>-</b>	<b>-</b>

# D. Fees – detailed analysis:

<b>PSAA Scale fee for 2021-22</b>	<b>£184,604</b>
Increased challenge and depth of audit work and testing in order to meet the audit quality challenge of the regulator	£6,250
Enhanced audit procedures for Property, Plant and Equipment, including the use of an Auditor's Expert on valuations	£5,000
The revised Value for Money (VfM) approach, introduced under the new NAO Code in 2020-21 (after the 2017 PSAA tender)	£20,000
Local risk factor relating to VFM work and financial pressures facing the Council	£5,000
Increased audit requirements relating to ISA 540 Revised - Auditing Accounting Estimates and Related Disclosures	£6,000
Enhanced audit procedures for journals and grants testing, given the risk of management override of controls	£7,000
Enhanced audit procedures for Pensions	£3,250
Impact of reduced materiality levels – given this is a 'major' audit within the FRC regulatory regime and increased testing	£3,750
Local risk factor – impact of the Council's ledger system and resulting working papers (as noted in previous audit reports)	<b>£35,000</b>
Enhanced audit procedures for Infrastructure assets	£5,000
Independent Partner review and 'Hot Review' of accounts by GT Technical – given the 'major' audit risk profile of the Council	£3,500
Additional work relating to Pensions Triennial valuation at 31 March 2022	£6,000
<b>Total proposed audit fees 2021-22 (excluding VAT)</b>	<b>£290,354</b>

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



# E. Audit opinion

We anticipate we will provide the Council with an unmodified 'clean' audit report. Our draft audit opinion is set out below.

## Independent auditor's report to the members of Leeds City Council

### Report on the Audit of the Financial Statements

#### Opinion on financial statements

We have audited the financial statements of Leeds City Council (the 'Authority') for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account, the Collection Fund Statement and notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

# E. Audit opinion

## Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

## Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

## Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities set out on page 1, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Corporate Governance and Audit Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

# E. Audit opinion

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003. In addition, the Local Government Act 1972, Local Government and Housing Act 1989, and Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.

- We enquired of senior officers and the Corporate Governance and Audit Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Corporate Governance and Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - closing journals posted during the preparation of the financial statements
  - material and unusual journals which fall outside of the auditor's expectations which are considered as high-risk journals.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on high risk journals such as, posted by senior management, journals with unusual attributes, journals without any descriptions, journals posted by staff not in the approved list of journals posting, journals that do not balance and journals posted which are material and not reoccurring or common postings;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings and defined benefit pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

# E. Audit opinion

- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings and defined benefit pensions liability valuations.
- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

## Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in respect of the above matter

### Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We have documented our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we have considered whether there is evidence to suggest that there are significant weaknesses in arrangements.

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# E. Audit opinion

## Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Leeds City Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

### Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Signature:

Gareth Mills, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Leeds

### Date

# F. Management Letter of Representation (draft)

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP  
No 1 Whitehall Riverside  
Leeds, LS1 4BN

Insert date 2023

Dear Sirs

**Leeds City Council**  
**Financial Statements for the year ended 31 March 2022**

This representation letter is provided in connection with the audit of the financial statements of Leeds City Council for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the Council's financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

## Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the Council's financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering 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 estimate. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the Council financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Council has been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.



# F. Management Letter of Representation (draft)

- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :
  - a. the nature of the Council means that, notwithstanding any intention to cease the Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
  - b. the financial reporting framework permits the entity to prepare its financial statements on the basis of the presumption set out under a) above; and
  - c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

- d. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.
- xv. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.
- xvi. The Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council's financial statements in the event of non-compliance.

## Information Provided

- xvii. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. access to persons within the Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.
- xviii. We have communicated to you all deficiencies in internal control of which management is aware.
- xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xx. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

# F. Management Letter of Representation (draft)

- xxiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiv. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

## Annual Governance Statement

- xxvi. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

## Narrative Report

- xxvii. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

## Approval

The approval of this letter of representation was minuted by the Council's Corporate Governance and Audit Committee at its meeting on **Insert date 2023.**

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

**Signed on behalf of the Council**

