Grant Thornton

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

Year ended 31 March 2023

**4 October 2024**

# Contents

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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 presented to the Corporate Governance and Audit Committee on 23 September 2024.

*Gareth D Mills*

Gareth Mills, Key Audit Partner and Engagement Lead

For Grant Thornton UK LLP

Date: 4 October 2024

# 1. Headlines

This section summarises the key findings and other matters arising from the statutory audit of Leeds City Council ('the Council') and the preparation of Council's financial statements for the year ended 31 March 2023 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 Council's income and expenditure for the year
- 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.

We received the Council's initial draft 2022-23 accounts on 21 July 2023, however, given the prior year audit for 2021-22 was on-going at this time, no work was undertaken on these draft accounts and an updated set of draft accounts for 2022-23 was received on 12 April 2024, following completion of the prior year 2021-22 audit, in March 2024.

Our audit work on the Council's draft 2022-23 accounts has been on-going since April 2024 and we remain on track to complete our work by the end of September 2024, as previously reported to the Corporate Governance and Audit Committee.

Since reporting on the delays to our audit work in our 2021-22 Audit Findings Report as well as making a key recommendation in our 2022-23 Auditor's Annual Report relating to the Council's engagement with the external audit process, we have noted major improvements in the timeliness of management responding to audit requests, as well as improvements in the quality of working papers provided.

Whilst we have noted these improvements, it is important to ensure that officers maintain these improvements as a matter of course going forward to ensure the Council is able to get back on track to a normal audit timetable. This is particularly important to ensure the 2023-24 audit is concluded by the revised backstop date of 28 February 2025.

Our findings for 2022-23 are summarised in Section Two of this report. As at the date of this report, we have not identified any agreed audit adjustments impacting on the Council's outturn position and useable reserves. However, our work to date has identified two unadjusted items as well as a number of disclosure and presentational audit adjustments which are detailed at Appendix D. We have raised two audit recommendations for management as a result of our work in the Action Plan at Appendix B. Our follow up of recommendations from the prior year are detailed at Appendix C.

Our audit work is now complete and there are no matters outstanding or which we would require modification of our proposed audit opinion (Appendix H) or material changes to the financial statements.

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.

# 1. Headlines

## Value for Money (VFM) arrangements

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 completed our 2022-23 Value for Money work at the Council and issued our Interim Auditor's Annual Report on 22 November 2023. Our Auditor's Annual Report was presented to the Corporate Governance and Audit Committee meeting on 27 November 2023. In our Auditor's Annual Report, we escalated two previously reported areas to key recommendations:

- Financial Sustainability - The Council should set out in detail how its proposed transformation plans will enable it to deliver a sustainable, balanced budget year-on-year.
- Governance - In order to strengthen arrangements in engaging in the external audit process, the Council needs to ensure:
    - timely provision of good quality working papers consistently to support the Council's financial statements (reviewed by an independent officer prior to being provided) and that all working papers reconcile clearly to FMS or other appropriate systems;
    - increased capacity within the Council's accounts team to respond promptly and in a timely manner to audit queries or requests for information; and
    - that the expected time commitment and risks associated with introducing the new ledger system, and the other key tasks being undertaken by the finance team, such as budget preparation, do not impact on the availability of key finance staff to engage with external audit to deliver the 2022-23 accounts audit.

As noted overleaf, we have seen major improvements in the timeliness in responding to audit requests, as well as improvements in the quality of working papers provided by the Council since issuing our 2022-23 Auditor's Annual Report. We will consider these improvements as part of our 2023-24 VFM arrangements assessment. We also raised a further seven improvement recommendations in our 2022-23 Auditor's Annual Report to further enhance existing controls and arrangements at the Council. Further details can be seen in the 2022-23 Auditor's Annual Report. We will follow up progress on the Council's implementation of these recommendations as part of our 2023-24 VFM work due to be reported later this year.

Since issuing our Interim Auditor's Annual Report in November 2023, we have kept the Council's VFM arrangements under review. We have not noted any additional matters that we wish to bring to the attention of the Corporate Governance and Audit Committee.

Further information on our VFM work is included at Section Three.

## Statutory duties

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.

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.

## Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

## Acknowledgements

We would like to take this opportunity to record our appreciation for the continued assistance and support provided by the finance team and other staff during our audit.

# 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 it will be presented to the Corporate Governance and Audit Committee on 23 September 2024.

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 service activities 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 is now complete and there are no matters outstanding or which we would require modification of our proposed audit opinion (Appendix H) or material changes to the financial statements.

# 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 disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our Audit Plan dated 16 May 2024.

Our determination of materiality for the Council is detailed in the table alongside.

| Materiality area | Amount (£000) | Qualitative factors considered |
|---|---|---|
| **Materiality for the financial statements** | 28,432 | We have determined materiality at 1.3% of gross expenditure in cost of services based on your draft 2022-23 financial statements.  We consider this as the most appropriate criteria given stakeholders interest in the Council delivering its budget.<br><br>There are no changes to this benchmark that was set out in our Audit Plan dated 16 May 2024. |
| **Performance materiality** | 19,902 | Assessed to be 70% of financial statement materiality.<br><br>The audit is planned and performed to detect material misstatements in accordance with International Standard on Auditing (UK) 320 (ISA 320). It is possible that a number of individually immaterial misstatements may cause the financial statements to be materially misstated. To address this risk, the audit is performed at a lower materiality called performance materiality. |
| **Triviality amount** | 1,400 | This equates to 5% of materiality. This is our reporting threshold to the Corporate Governance and Audit Committee for any errors identified. |
| **Materiality for senior officer remuneration disclosures** | 25 | The senior officer remuneration disclosures in the Financial Statements have been identified as an area requiring specific materiality due to its sensitive nature. |

# 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**<br><br>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.<br><br>We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures.<br><br>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:<br>• evaluated the design effectiveness of management controls over journals<br>• analysed the journals listing and determined the criteria for selecting high risk unusual journals<br>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration<br>• gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence<br>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.<br><br>Our audit work is now complete and has not identified any issues in respect of management override of controls. |

# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Commentary |
| --- | --- |
| Risk of fraud in revenue recognition and expenditure<br><br>**Revenue**<br>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.<br><br>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br><br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition are very limited<br>• the culture and ethical frameworks of local authorities, including at the Council, mean that all forms of fraud are seen as unacceptable.<br><br>**Expenditure**<br>Whilst not a presumed significant risk we have had regard to Practice Note 10 ( Audit of financial statements and regularity of public sector bodies in the United Kingdom). Having considered the nature of the expenditure streams at the Council, we have determined that the risk of fraud arising from expenditure recognition can be rebutted, because:<br><br>• there is little incentive to manipulate expenditure for a Council where services are provided to the public through taxpayers funds<br>• Covid -19 funding has been provided for additional expenditure and loss of income in prior years<br>• the culture and ethical frameworks of local authorities, including at the Council, mean that all forms of fraud are seen as unacceptable. | As part of our final accounts audit process, we have reconsidered our rebuttal of both revenue and expenditure recognition and consider this rebuttal remains appropriate. Notwithstanding that we have rebutted these risks, we have undertaken a significant level of work on the Council's revenue streams and expenditure, as they are material to the financial statements audit.<br><br>As part of our audit work, we have:<br><br>**Accounting policies and systems**<br>• 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<br>• Updated our understanding of the Council's business processes associated with accounting for income and expenditure.<br><br>**Fees, Charges and other service income**<br>• Agreed, on a sample basis, income and year end receivables from other income supporting evidence.<br><br>**Taxation and non-specific grant income**<br>• Income for national non–domestic rates and council tax is predictable and therefore we conducted substantive analytical procedures<br>• For other grants we sample tested items for supporting evidence and checked the appropriateness of the accounting treatment was in line with the CIPFA Code.<br><br>**Expenditure**<br>• Agreed, on a sample basis, non pay expenditure and year end payables to supporting evidence<br>• Undertook detailed substantive analytical procedures on pay expenditure.<br><br>We also carried out sufficient and appropriate audit procedures to ascertain that recognition of income and expenditure was in the correct accounting period using cut off testing.<br><br>Our audit work is now complete and there are no issues arising that require reporting to the Corporate Governance and Audit Committee except the following:<br><br>• Payments cut off testing – we identified one error in our cut off testing of £5,377k relating to an under construction capital scheme valuation at 31 March 2023. An accrual should have been processed for this valuation but was omitted. To ensure there were no further errors, we obtained details of all under construction capital valuations at 31 March 2023 and noted two further errors totalling £624k. No other errors were noted. In total, accruals are understated by £6,001k. We have raised a recommendation for management to review all under construction capital valuations at the year end to ensure accruals are correctly recorded in future. The Council has adjusted for this error. |

# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Commentary |
| --- | --- |
| **Closing valuation of land and buildings, including Council dwellings**<br><br>The Council re-values its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (c£6,651m) and the sensitivity of this estimate to changes in key assumptions.<br><br>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.<br><br>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:<br><br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work<br>• evaluated the competence, capabilities and objectivity of the valuation experts<br>• discussed with the valuers the basis on which the valuation was carried out<br>• challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding<br>• 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<br>• tested revaluations made during the year to see if they had been input correctly into the Council's asset register<br>• 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<br>• considered, where the valuation date is not 31 March 2023 for assets valued in year, the arrangements management has used to ensure the valuation remains materially appropriate at 31 March 2023. The Authority has a valuation date of 1 January for most assets. We have considered the arrangements management has used to ensure the valuation remains materially appropriate as at 31 March 2023 from this date.<br><br>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. In addition, by not having the valuation date set at 31 March, this involves a lot of work by both the Council and ourselves to ensure there is no material movement from 1 January to 31 March.<br><br>We have reported this matter for the last few years in our Audit Findings Report including last year recommending 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 2022-23 accounts remains the same, 1 January 2023. We consider management should revise its valuation date for the valuation of fixed assets to the year end, 31 March each year and have commented as such in the follow up of prior year recommendations at Appendix C.<br><br>In addition, our audit work reconciling valuation reports back to the Fixed Asset Register (FAR) and draft accounts identified one adjustment relating to the Leeds Arena which the Council had also identified. The valuation of the land in front of the Leeds Arena (Plot A 6371) on Claypit Lane has been omitted. Total valuation understatement in the draft accounts £1,836k Management has agreed to adjust for this issue.<br><br>Our audit work is now complete and other than these matters, our work has not identified any other issues in respect of the valuation of land and buildings. |

# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Valuation of the pension fund balance**<br><br>The Council's prior year pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.<br><br>The pension fund net liability for 2021-22 was considered a significant estimate due to the size of the numbers involved (c£1,514m) in the Council's balance sheet and the sensitivity of the estimate to changes in key assumptions.<br><br>We therefore identified valuation of the Council's pension fund balance as a significant risk, which was one of the most significant assessed risks of material misstatement.<br><br>The Council is an admitted body of the West Yorkshire Pension Fund. We understand from our discussions with management that West Yorkshire Pension Fund will be in a surplus position as at 31 March 2023, following the recent triennial valuation process. This situation gives rise to a net pension asset rather than a net pension liability.<br><br>As a result of this, the Council (in common with a number of local authorities in 2022-23) will need to consider the potential impact of IFRIC 14 on the Authority's IAS 19 accounting. IFRIC 14 is the accounting principle that limits the recognition of a defined benefit asset in the financial statements.<br><br>The Council's draft 2022-23 accounts (April 2024 version) show a pension asset of £98.2m which compares to a pension liability in the prior year, 2021-22 of £1,513.8m. | We have:<br>▪ updated our understanding of the processes and controls put in place by management to ensure that the Authority's share of the pension fund is not materially misstated and evaluated the design of the associated controls<br>▪ evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work<br>▪ assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation<br>▪ assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the balance<br>▪ 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<br>▪ 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<br><br>**Auditor Commentary on Accounting for the Pension Fund Surplus/Asset in the Council's financial statements**<br>See pages 11 -12 overleaf where this is reported. It is important to note that any potential issues or adjustments that may arise from the Council's accounting for its share of the pension fund <u>would not result in any impact on the Council's useable reserves</u>.<br><br>**Other work:**<br>Our work, including the pension fund asset measurement and related accounting (see pages 11-12), has not identified any accounting and disclosure amendments. However, our work noted the following additional matter:<br>• The West Yorkshire pension fund auditor noted in their IAS19 report an adjusted error relating to Pooled Investment Vehicles (PIVs) of £20.3m relating to all admitted bodies. The Leeds City Council element of this error totals £5.0m, representing the Council's share (an increase to investment assets). The Council has not adjusted for this error on the grounds it is not considered material. This has been shown as an unadjusted error at Appendix D.<br><br>No other issues have been noted from our work on pensions. |

# 2. Financial Statements - Significant risks

**Auditor Commentary on Accounting for the Pension Fund Surplus/Asset in the Council's financial statements**

Valuation of the Authority's defined benefit pension scheme (continued):

This section covers:

(1) Background to the issue and relevant accounting principles

(2) Our observations of the draft accounts presented for audit

(3) Our challenges to management on the draft accounts disclosures / accounting treatment and subsequent management actions

(4) Summary amendments and disclosures

(1) Background to the issue and relevant accounting principles:

As indicated previously, for the first time since International Financial Reporting Standards (IFRS) were adopted in the public sector, the Council's net defined benefit pension fund is in a surplus or a net asset position in 2022-23, as opposed to the significant liability balance that has been reported in previous years.

According to the relevant accounting standard, IAS19 (Employee Benefits), an entity shall recognise the net defined benefit liability / asset in the statement of financial position. Therefore, whether it is a liability (which was the case in the past) or an asset , according to IAS19, it should be recognised in the balance sheet.

IAS19 states when an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:

(a) the surplus in the defined benefit plan

(b) the asset ceiling, determined using the discount rate specified in IAS19.

The asset ceiling is defined as the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

IFRIC-14 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction) provides guidance on amount that can be recognised in the financial statements, when there is a surplus /net asset position.

It is significantly unlikely that there will be refunds from the plan to the employer in a local government defined benefit scheme. There are no exit plans in the foreseeable future as these are public sector pension plans that would continue in perpetuity. There could be a possible situation whereby there could be potential reductions in future contributions to the plan.

The economic benefit available as a reduction in future contributions can be calculated as follows:

- present value of IAS 19 future service costs (calculated based on IAS 19 assumptions as at the balance sheet date), less
- present value of future service contributions if these are classed as a minimum funding requirement.

By doing this, the asset ceiling can be determined (point b above)

Management then needs to consider what should be recognised / disclosed in the financial statements based on accounting principles stated above.

# 2. Financial Statements - Significant risks

**Auditor Commentary on Accounting for the Pension Fund Surplus/Asset in the Council's financial statements 0**

(2) Our observations of the draft accounts and actuary reports presented for audit

- The Council received its actuary's report in April 2023 for the year to 31 March 2023 which was used to prepare the draft accounts. This indicated a net asset position of £98.2m. This was derived after netting off the pension obligations of £4,276.1m from the asset valuation of £4,374.3m. The corresponding net pension fund liability as at 31 March 2022 was £1,392.4m therefore, the total year on year movement from liability to an asset position was £1,490.6m in a 12 month period.  The biggest fluctuation year-on-year was in the reduction in present value of funded defined obligations from £5,793.4m to £2,276.1m (by c26%). The primary reason for this decrease is attributable to an increase in the discount rate from 2.7% [31.3.22] to 4.70% [31.3.23].
- Using this information and considering the requirements of IFRIC 14, the Council's actuary calculated the asset ceiling and concluded that it was in excess of the net pension asset valuation of £98.2m which management considered and reviewed. As such, it was appropriate to record the full net asset pension valuation of £98.2m in the Council's financial statements at 31 March 2023.  As part of our audit procedures, we considered the asset ceiling calculation and noted no issues.

(3) Our challenges to management on the draft accounts disclosures / accounting treatment and subsequent management actions

- We challenged management on IAS19 / IFRIC14 principles as highlighted on page 11.  That is, when there is a pension asset it has to be accounted for on the balance sheet and IFRIC14 has to be used to limit the recognition of that asset. Management has correctly accounted for the pension surplus in the financial statements and ensured it did not breach the limit for asset recognition using the asset ceiling principles as mentioned at page 11.  No issues were noted.

(4) Summary amendments and disclosures

- No amendments to the pension disclosures shown within the draft accounts were required following our review of the Council's approach to accounting for a pension asset for the first time at 31 March 2023. The Council has appropriately calculated its asset ceiling which is greater than the net pension asset position of £98.2m at 31 March 2023, accordingly it is appropriate to record the full asset valuation of £98.2m on the balance sheet.
- No issues were noted from our work in this area.

# 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 |
|---|---|
| **IFRS 16 implementation**<br>FRAB agreed with the deferral of IFRS 16 to 2024- 25. 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 2023 (early adoption) then in the 2022-23 accounts as a minimum, we 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 | 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, under new accounting standards not yet implemented within Note 26.<br>Management and the audit team will liaise during the 2023-24 audit to ensure the requirements of the new standard are being followed and plans are developed for IFRS 16 implementation to be adequately reported in the 2023-24 accounts and fully adopted in the 2024-25 accounts. |
| **Recognition and Presentation of Grant Income**<br>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.<br>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. | Note 8 to the accounts include a detailed analysis of grant income covering grant income recognised through the Comprehensive Income and Expenditure Statement (CIES). Note 17.1 (creditors) to the accounts includes grants and contributions received in advance. Note 6 Accounting Policies provide the accounting principles and disclosures supporting grant income.<br>Our audit testing of grant income relating to 2022-23 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 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.<br>Our work also reviewed the appropriateness of the disclosures made and we undertook sample testing of a number of grants.<br>No issues have been identified in recognition and presentation of Grant Income. |

# 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 |
|---|---|
| **Measurement of Infrastructure Assets:**<br>• The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. Depreciation depends upon the use of appropriate useful economic lives.<br>• The update to the Code (November 2022) provides a temporary relief from the requirement to report the gross book value and accumulated depreciation for infrastructure assets, because historical reporting practices and resulting information deficits mean that this information is unlikely to faithfully represent the asset position to the users of financial statements.<br>• An amendment to the Local Authority Capital and Finance regulations (SI 2022 No 1232) permits Local Authorities when derecognising components of infrastructure assets, replaced by expenditure on existing assets, to determine the relevant amount to be nil.<br>• The Council has material infrastructure assets, at net value basis, there is therefore a potential risk of material misstatement related to the infrastructure balance. | Our audit work has not identified any issues in respect of measurement of infrastructure assets or the disclosures made. |
| **Equal pay claims and the potential liabilities:**<br>• There have been recent publicity in local government sector where certain councils have accumulated equal pay claims. In some cases, these claims have resulted in recognising significant liabilities on the balance sheet. This has created significant financial and cashflow challenges during an economic crisis where public services have already been impacted due to increasing service demands and cost pressures.<br>• As part of our 2022-23 audit, we inquired on such existing equal pay claims at the Council, directing our inquiries to the s151 Officer and the Monitoring Officer.<br>• Our objective was to identify any unrecorded liabilities in relation to equal pay claims at the Council. | We have continued to engage with senior management on equal pay claims and any associated potential liabilities. As part of our audit work, we have continued to consider the impact of any potential equal pay claims and whether a liability is required to be recognised or associated disclosures in the draft financial statements for the year ended 31 March 2023.<br>We have included a management representation on this matter within the proposed letter of representation at Appendix G. |
| **IT General Controls (ITGC) work:**<br>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. | Our detailed 2022-23 IT work was undertaken by our specialist IT team. Our detailed findings were reported in our IT Audit Findings Report dated 14 November 2023 and included management responses to each of the recommendations noted. Our IT Audit Findings Report was presented to the Corporate Governance and Audit Committee at its meeting on 27 November 2023. |

# 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:<br>£2,551m | 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.<br><br>The Council engaged its in-house valuer to complete the valuation of these properties. The valuation was at 1 January 2023 and valued Council Housing at £2,551m, a net increase of £169.5m from 2021-22 (£2,382m). | • The Council's RICS qualified valuer has valued the entire housing stock using the beacon methodology, in which a detailed valuation of representative property types was then applied to similar properties.<br>• Our work indicated that this methodology was applied correctly to the 2022-23 valuation.<br>• We have assessed the Council's valuer to be competent, capable and objective in carrying out the valuations<br>• 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<br>• We have agreed the HRA valuation report to the accounts<br>• We have compared the valuation movements with the Gerald Eve (property valuation specialists) national report and held discussions with our own valuation specialist.  We have also challenged management and the Council's valuation expert on valuation differences (as relevant) identified through our sensitivity analysis work using other relevant indices.<br><br>There are no issues arising from our work that we wish to bring to the attention of management or the Corporate Governance and Audit Committee. | We consider management's process is appropriate and key assumptions are neither optimistic or cautious<br><br>**(Green)** |

**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 there are areas for enhancement and improvement
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# 2. Financial Statements – key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr><td>Other Land and Buildings valuation:<br><br>£2,614.2m</td><td>Other land and buildings comprises £2,363m 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.<br><br>The remainder of other land and buildings (£251m) are not specialised in nature and are required to be valued at existing use value (EUV - £80m) for example car parks, and open market value (OMV - £171m) 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 2023 with two external valuers valuing the Waste to Energy Plant. Approximately 90% of total assets (by value) were revalued during 2022-23.<br><br>Management has also considered the year end value of non-valued properties, and the potential valuation change in the assets not revalued at 31 March 2023, to determine whether there has been a material change in the total value of these properties.<br><br>The total year end valuation of Other land and buildings was £2,614.2m.</td><td>• We have assessed the Council's in-house valuer, and the two external valuers to be competent, capable and objective<br>• 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<br>• 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 commented again on this matter in the follow up of prior year recommendations at Appendix C<br>• 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. We have also challenged management and the Council's valuation specialists on valuation differences identified through our work. This work currently remains on-going.<br><br>Our audit work reconciling valuation reports back to the Fixed Asset Register (FAR) and draft accounts identified one adjustment to the Council's valuation of land and buildings:<br><br>1. Leeds Arena – the valuation of the land in front of the Leeds Arena (Plot A 6371) on Claypit Lane has been omitted. Total valuation understatement in the draft accounts £1,836k. Management has agreed to adjust for this error.<br><br>There are no other issues arising from our work that we wish to bring to the attention of the Corporate Governance and Audit Committee.</td><td>We consider management's process is appropriate and key assumptions are neither optimistic or cautious<br><br>**(Green)**</td></tr>
</table>

# 2. Financial Statements - key judgements & estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| This Year:<br><br>Net pension Asset £98.2m – see page 12<br><br>Prior Year:<br><br>Net pension liability £1,392.4m | The Council's net pension asset as at 31 March 2023 was £98.2m in its draft accounts (PY equivalent deficit /liability £1,392.4m). This is an overall movement of £1,490.6m between last year and this year. The main reason for the movement is attributable to an increase in the discount rate from 2.7% [31.3.22] to 4.70% [31.3.23].<br><br>The Council continues to engage AON 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 as at 31 March 2022, utilising key assumptions such as life expectancy, discount rates, salary growth and pension increase rate.<br><br>A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return.<br><br>Given the significant value of the net pension fund asset/liability, small changes in assumptions can result in significant valuation movements.<br><br>As indicated above and our reporting at pages 11-12, there has been a £1,490.6m net actuarial gain during 2022-23. This improved position is largely a result of an increase in the discount rate in excess of the increase in the CPI inflation assumption. | We have:<br>• Assessed the competence, capability and objectivity of management's expert, AON<br>• Assessed the actuary's approach taken and deemed it reasonable<br>• Used PwC as an auditor's expert to assess the management actuary and assumptions made by the actuary (see table below)<br>• Confirmed the completeness and accuracy of the underlying information used to determine the estimate<br>• Confirmed the reasonableness of the Council's share of pension assets<br>• Confirmed the reasonableness of the decrease in the liability estimate<br>• Confirmed the adequacy of the disclosure of the estimate in the financial statements.<br><br>(see assumptions table below)<br><br>Our work, including the pension fund asset measurement and related accounting has not identified any accounting and disclosure amendments. However, our work noted the following matter:<br>• The West Yorkshire pension fund auditor noted in their IAS19 report an adjusted error relating to Pooled Investment Vehicles (PIVs) of £20.3m relating to all admitted bodies. The Leeds City Council element of this error totals £5.0m, representing the Council's share (an increase to investment assets). The Council has not adjusted for this error on the grounds it is not considered material. This has been shown as an unadjusted error at Appendix D.<br><br>Our work has not identified any evidence to conclude that management's processes and key assumptions are not appropriate. | We consider management's process is appropriate and key assumptions are neither optimistic or cautious<br><br>**(Green)** |

| Assumption | Actuary Value | PwC range | Assessment |
|---|---|---|---|
| Discount rate | 4.5% to 4.8% | Assumption appears reasonable | ● Green |
| Pension increase rate | 2.6% to 2.70% | Assumption appears reasonable and methodology appropriate | ● Green |
| Salary increase rate | 1.00% p.a. to 1.50% p.a. above CPI plus promotional salary increases | In line with expectation. | ● Green |
| Life expectancy – Males | Pensioners: 21.6 – 23.3<br>Non-pensioners: 22.9 – 23.8 | Overall mortality assumptions appear reasonable. | ● Green |
| Life expectancy – Females | Pensioners: 24.2 – 25.7<br>Non-pensioners: 25.5 – 26.7 | Overall mortality assumptions appear reasonable | ● Green |

# 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| **Grants Income:**<br><br>**£1,280.3m**<br>***(PY £1,379.9m)***<br><br>**Grants received in Advance:**<br><br>**£3.2m**<br>***(PY £26.9m)*** | Management has taken into account three main considerations in accounting for grants:<br>1. 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.<br>2. 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<br>3. 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.<br><br>There may be judgements over the accounting treatment. Different conclusions may be reached by the Council depending on how they have applied any discretion in administering the schemes and application of Code guidance. | 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.<br><br>As part of our audit work, we have:<br>• 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<br>• 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<br>• 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<br>• assessed the adequacy of disclosure of grants received and judgement used by management as part of our detailed testing.<br><br>Our audit work has not identified any matters which require reporting to the Corporate Governance and Audit Committee except for:<br>• Our review of grant income relating to the Better Care Fund and Social Care Grant noted a classification error of £8,663k. income was included within Net Cost of Services Income (Grants) whereas it should have been recorded in Non-ring fenced Government Grants. The Council has adjusted for this misclassification. | We consider management's process is appropriate and key assumptions are neither optimistic or cautious<br><br>**(Green)** |

# 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Minimum Revenue Provision:<br><br>GF £36.8m<br>HRA £7.7m<br><br>(PY £31.8m) | 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 | The MRP charge continues to be an area of increasing focus for local authority external auditors following recent highly publicised financial challenges at some local authorities where MRP charges were found to be inappropriate.<br><br>For our 2022-23 audit, we compared the MRP charge as a percentage of the Capital Financing Requirement (CFR). Typically, we would expect the charge to be around 2% representing an asset life of 50 years. At Leeds for 2022-23, the General Fund MRP charge is £36.8m against a Capital Financing Requirement of £1,836m, which is 2% and in line with our benchmark expectation of some 2% or higher.<br><br>MRP is calculated by the Council in accordance with the recommended options for MRP which are included in the statutory guidance. The policy is reported annually to Full Council as required.<br><br>The Council utilises option 3b of the statutory guidance and the Council has deducted the amount of capital receipts applied to reduce the overall CFR that forms the basis of the MRP charge. The charge to revenue is then made with respect to the residual outstanding CFR.<br><br>As noted above, the Council uses Option 3b which is the annuity method, this results in a lower charge in the earlier years and a higher charge in later years. Our review indicates that the period over which MRP is being charged appears reasonable.<br><br>No issues have arisen from our work. | We consider management's process is appropriate and key assumptions are neither optimistic or cautious<br><br>**(Green)** |

# 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Investment Properties valuation:<br>£79.8m<br>(PY £91.5m) | 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.<br><br>The value of the Council's investment properties has fallen from £91.5m at 31 March 2022 to £79.8m at 31 March 2023. The reduction is mainly due to disposals of £5.6m during the year and revaluation decreases of £6.1m. | Our audit work on investment properties included:<br>• evaluating management's processes and assumptions for the calculation of the valuation, the instructions issued to valuation experts and the scope of their work<br>• evaluating the competence, capabilities and objectivity of the valuation expert<br>• discussing with the valuer the basis on which the valuation was carried out including the use of market rental information<br>• challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding<br>• 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<br>• testing revaluations made during the year to see if they had been input correctly into the Authority's asset register<br>• considering, where the valuation date is not 31 March 2023 for assets valued in year, the arrangements management has used to ensure the valuation remains materially appropriate at 31 March 2023.<br><br>Our audit work is now complete, and no issues have arisen in relation to investment properties except for the following matter:<br><br>• Our audit work noted that of total investment properties of £79.8m, the Authority had revalued £71.7m in accordance with IAS 40 leaving £8.1m of properties not being revalued in year. Whilst investment properties not revalued in year is not considered material, there remains a risk that the value of investment properties may be incorrectly stated at the year end. There is a need for management to ensure all investment properties are revalued each year in accordance with IAS 40 to ensure investment properties are correctly valued at the year end. We have raised a recommendation in this regard in the Action Plan at Appendix B. | We consider management's process is appropriate and key assumptions are neither optimistic or cautious<br><br>**(Green)** |

# 2. Financial Statements - other communication requirements

We set out alongside 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 |
|---|---|
| **Matters in relation to fraud** | 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 significant incidents in the year and no issues have been identified during the course of our audit. |
| **Matters in relation to related parties** | We are not aware of any related parties or related party transactions which have not been disclosed. |
| **Matters in relation to laws and regulations** | 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. |
| **Written representations** | The proposed letter of management representation is included at Appendix G. As noted on page 14, additional representations have been requested in relation to Equal Pay liabilities. |
| **Confirmation requests from third parties** | 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. |
| **Accounting practices** | We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures.<br>Our review found no material omissions in the financial statements except for a small number of presentational disclosure amendments which have been processed by management and these are included at Appendix D. |
| **Audit evidence and explanations / significant difficulties** | We have noted significant improvements in the timeliness of management responses to audit requests, as well as improvements in the quality of working papers when compared to prior year audits. It is important to ensure that officers maintain these improvements as a matter of course going forward to ensure the Council is able to get back on track to a normal audit timetable. This is particularly important to ensure the 2023-24 audit is concluded by the revised backstop date of 28 February 2025.<br>There are no significant difficulties to report in terms of receipt of audit evidence or for information and explanations requested. |
| **Other matters** | Our audit work identified the following additional matters:<br>**Private Finance Initiative (PFI) Schemes**<br>• Balance Sheet - PFI liabilities less than 1 year total £32,670k and have been shown under long term liabilities (deferred liabilities) rather than short term liabilities. Management has agreed to adjust for this disclosure in the final version of the accounts. Additionally, prior year comparatives require updating for 31 March 2022 and 1 April 2021 (note the updates of the prior year balance sheets are only in respect of this balance)<br>• Note 11 – Private Finance Initiative - a number of compilation issues were identified within the assets table. The opening and closing balances for 7 schools did not agree with last year's audited accounts (as changes were made to the 2021-22 balances in this area which were concluded in March 2024, after the original 2022-23 accounts had been drafted in July 2023) These will be updated in the finalised 2023-24 accounts. |

# 2. Financial Statements - other communication requirements

| Issue | Commentary |
|---|---|
| Other matters continued | **Headingley Stadium – Free Tickets**<br>As part of our review of the Council's leases, we noted a clause had been inserted by the Council within the signed Headingley Cricket lease and the signed Headingley Rugby lease to obtain a number of free tickets for both cricket and rugby matches. These tickets, according to each lease agreement are intended to be used by children in care or foster children. We have been liaising with senior management since 4 July 2024 to consider the governance arrangements in place and identify:<br>1. The background to including a clause for free tickets in these leases agreements and who approved these (at officer and member/committee level)<br>2. How free tickets are obtained and their receipt recorded for both cricket and rugby matches (since lease inception)<br>3. Who controls the distribution of free tickets to be used and how this is recorded when tickets are issued<br>4. How the Council ensures tickets are only issued to and used by those entitled and no one else<br>5. If officers or members have used these tickets at any time or sold or transferred tickets to other people.<br>Management has now provided responses to each of the questions raised and has also requested the Council's Internal Audit Service to undertake a review of the current arrangements.<br>**Fees and charges**<br>Our sample testing on fees and charges identified a round sum amount of £1.5m for testing. On review, we noted this related to income from Section 38 agreements with developers from periods before 2022-23. The income had been released in year and management, upon reviewing the audit evidence to share with us, noted a lack of conditions attached to the use of this income. On discussions with management, it was noted that income from Section 38 agreements with developers contained no conditions. We discussed with management as to why this income had not been released earlier on receipt given there were no conditions attached and the extent of other income that had been received and included within receipts in advance which had not yet been released to the Comprehensive Income and Expenditure Statement (CIES).<br>We understand there is a total of £3,572k of Section 38 income where there are no conditions attached which has not yet been released to the CIES. The Council's income within the CIES is therefore understated by £3,572k. The Council has not adjusted for this error on the grounds it is not considered material but will consider this issue for accounting periods 2023-24 and beyond. This has been shown as an unadjusted error at Appendix D. |

# 2. Financial Statements: other communication requirements

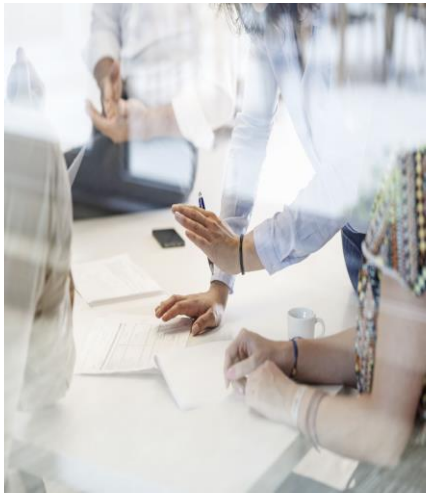
### Our responsibility

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 | 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.<br><br>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:<br>• 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<br>• 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.<br><br>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:<br>• the nature of the Council and the environment in which it operates<br>• the Council's financial reporting framework<br>• the Council's system of internal control for identifying events or conditions relevant to going concern<br>• management's going concern assessment.<br><br>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:<br>• a material uncertainty related to going concern has not been identified<br>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. |

# 2. Financial Statements – other responsibilities under the Code

| Issue | Commentary |
|---|---|
| Other information | We are required to give an opinion on whether the 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.<br><br>Whilst the Narrative Foreword included in the draft accounts was consistent with the figures in the original draft accounts, we have discussed with management the need to update the Narrative Report to be consistent with the revised draft accounts from April 2024. Management is aware of this requirement and is updating the original Narrative Report for these inconsistencies.<br><br>Our review of the Annual Governance Statement noted that the two Key Recommendations made in our 2022-23 Auditor's Annual Report issued in November 2023 had not been reported within the 2022-23 Annual Governance Statement which was approved in September 2023. Given the 2022-23 AGS has already been approved, management is incorporating the key recommendations and findings from our 2022-23 Auditor's Annual Report in the Annual Governance Statement for 2023-24. Looking ahead, the Council should consider finalising the AGS at the same time as the accounts are signed following the audit each year, this is the approach we generally see at other authorities.<br><br>No other issues were noted from our work. We plan to issue an unmodified 'clean' opinion in this respect as reported at Appendix H. |
| Matters on which we report by exception | We are required to report on a number of matters by exception in a number of areas:<br>• 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<br>• if we have applied any of our statutory powers or duties<br>• where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness(es).<br><br>We have nothing to report on these matters except that we raised two key recommendations as part of our value for money work within our 2022-23 Interim Auditor's Annual Report dated 22 November 2023. The two key recommendations related to Financial Sustainability and Governance. Further details can be seen in Section 3 – Value For Money Arrangements. |
| Specified procedures for Whole of Government Accounts | 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.<br><br>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.<br><br>The NAO requires this work to be completed once the audit opinion is provided on the financial statements. This work currently remains outstanding and is targeted to be delivered later in the year. |
| Certification of the closure of the audit | As in previous years, we intend to delay the certification of the closure of the 2022-23 audit of the Council in the audit report, as detailed at Appendix H, until we have completed work on the WGA consolidation exercise mentioned above. |



# 3. Value for Money arrangements

## Approach to Value for Money work for 2022-23

The National Audit Office issued its updated guidance for auditors in January 2023. The Code require 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

# 3. VFM - our procedures and conclusions

We have now completed our 2022-23 Value for Money work at the Council and issued our Interim Auditor's Annual Report on 22 November 2023. Our Auditor's Annual Report was presented to the Corporate Governance and Audit Committee meeting on 27 November 2023. In our Interim Auditor's Annual Report, we escalated two previously reported areas to key recommendations:

- Financial Sustainability - The Council should set out in detail how its proposed transformation plans will enable it to deliver a sustainable, balanced budget year-on-year.
- Governance - In order to strengthen arrangements in engaging in the external audit process, the Council needs to ensure:
  - ❖ timely provision of good quality working papers consistently to support the Council's financial statements (reviewed by an independent officer prior to being provided) and that all working papers reconcile clearly to FMS or other appropriate systems;
  - ❖ increased capacity within the Council's accounts team to respond promptly and in a timely manner to audit queries or requests for information; and
  - ❖ that the expected time commitment and risks associated with introducing the new ledger system, and the other key tasks being undertaken by the finance team, such as budget preparation, do not impact on the availability of key finance staff to engage with external audit to deliver the 2022-23 accounts audit.

In addition, we raised a further seven improvement recommendations to further enhance existing controls and arrangements at the Council which are summarised below:

- Financial sustainability:
  - o The Council should make further improvements to its the presentation of the budget and the accompanying savings programme.
  - o The Council aligns its key budget and financial monitoring reports more clearly to the Council's strategic goals, as set out in the Leeds Best City Ambition, and to its strategic risks
  - o Strengthening the monitoring of the capital programme
- Governance:
  - o The Council implements more frequent reporting of strategic risks to Executive Board throughout the year, setting out the progress made against actions, direction of travel and emerging issues detailed in these reports
- Improving economy, efficiency and effectiveness:
  - o The Executive Board is fully briefed on progress and risks prior to the new finance system going live so that it can ensure the rollout occurs once it is satisfied that any residual risks have been appropriately mitigated
  - o The Council should continue to develop its performance reporting
  - o The Council ensures timely reporting to the Corporate Governance and Audit Committee on procurement compliance activity.

Further details can be seen in the 2022-23 Auditor's Annual Report.

Since issuing our Interim Auditor's Annual Report in November 2023, we have kept the Council's VFM arrangements under review. We have not noted any additional matters that we wish to bring to the attention of the Corporate Governance and Audit Committee. We will follow up progress on the Council's implementation of our recommendations as part of our 2023-24 VFM work due to be reported later this year.

# 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 E.

## 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)]

## 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 |
|---|---|---|---|
| **Audit related:** | | | |
| No services provided | - | - | - |
| **Non-audit related:** | | | |
| No services provided | - | - | - |

# 4. Independence and ethics (continued)

As part of our assessment of our independence we note the following matters:

| Matter | Conclusion |
|---|---|
| Relationships with Grant Thornton | We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity.<br><br>In relation to the Headingley lease (discussed at page 22), for transparency and completeness we highlight that Grant Thornton advised the Council on the establishment of the Headingley lease. It is important to note that this was prior to Grant Thornton being appointed as the Council's external auditor by PSAA. |
| Relationships and Investments held by individuals | We have not identified any potential issues in respect of personal relationships with the Council. |
| Employment of Grant Thornton staff | We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control related areas. |
| Business relationships | We have not identified any business relationships between Grant Thornton and the Council . |
| Contingent fees in relation to non-audit services | No contingent fee arrangements are in place for non-audit services provided. |
| Gifts and hospitality | We have not identified any gifts or hospitality provided to, or received from, a member of the Council, senior management or staff that would exceed the threshold set in the Ethical Standard. |

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

# Appendices

# A. Communication of audit matters to those charged with governance

| Our communication plan | Audit Plan | Audit Findings |
|---|---|---|
| Respective responsibilities of auditor and management / those charged with governance | • | |
| Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks | • | |
| Confirmation of independence and objectivity | • | • |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | • | • |
| Significant findings from the audit | | • |
| Significant matters and issue arising during the audit and written representations that have been sought | | • |
| Significant difficulties encountered during the audit | | • |
| Significant deficiencies in internal control identified during the audit | | • |
| Significant matters arising in connection with related parties | | • |
| Identification or suspicion of fraud involving management and / or which results in material misstatement of the financial statements | | • |
| Non-compliance with laws and regulations | | • |
| Unadjusted misstatements and material disclosure omissions | | • |
| Expected modifications to the auditor's report, or emphasis of matter | | • |

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

This document, the Audit Findings (ISA260) Report, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

### Respective responsibilities

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

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

### Distribution of this Audit Findings (ISA260) Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

# B. 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 recommendations with management and will report on progress on these recommendations during the course of the 2023-24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| ● Medium | **1. Payments – Cut off testing:**<br>We identified one error in our cut off testing of £5,377k relating to under construction capital scheme valuations at 31 March 2023. An accrual should have been processed for this valuation but was omitted. A further review of all under construction capital valuations at 31 March 2023 noted two further errors totalling £624k. In total, accruals are understated by £6,001k.<br>There is a risk that the value of accruals included in the financial statements for under construction capital schemes  is understated. | Management should review all under construction capital valuations at the year end to ensure accruals are correctly recorded.<br>**Management response:**<br>A review process is already in place at closedown to identify the accruals required for any capital invoices which have been processed into the new year, however this finding relates to a small number of instances where the invoices for the work done had not yet been received. Project managers will be reminded in future of the importance of ensuring that accruals are requested where they are aware of any significant work done for which invoices have not yet been received. |
| ● Medium | **2. Investment Properties:**<br>Our audit work noted that of total investment properties of £79.8m, the Authority had revalued £71.7m in accordance with IAS 40 leaving £8.1m of properties not being revalued in year.<br>Whilst investment properties not revalued in year is not considered material, there  remains a risk that the value of investment properties may be incorrectly stated at the year end. | Management should ensure all investment properties are revalued each year in accordance with IAS 40 to ensure investment properties are correctly valued at the year end.<br>**Management response:**<br>The requirement of IAS40 and the Code is that the fair value of investment properties should reflect market conditions at the balance sheet date; there is no specific requirement for formal annual revaluations to be carried out if they are not judged to be necessary to achieve this requirement. This finding relates to investment properties with an individual carrying value of less than £500k, of which there are 42 with an average carrying value of £117k. For its investment properties with a carrying value of <£500k, the Council carries out a high-level review annually to identify any changes in circumstances or other factors which could lead to a change in their fair value. Where any such indicators are present, a formal revaluation is carried out. This approach ensures that any cases where the fair value at the balance sheet date may potentially be materially different from the existing carrying value are identified and addressed. The Council is therefore satisfied that its existing arrangements are already consistent with the requirements of IAS40. |

# C. Progress against prior year audit recommendations

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

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| X<br>Not implemented | **1. Valuation of land and buildings:**<br>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.<br>There is a risk that asset values are not correctly valued in the financial statements.<br>We recommended management should revise its valuation date for the valuation of fixed assets from the current 1 January, to the year end, 31 March each year. | **Management response:**<br>Prior to the 2022-23 accounts process the Council again discussed with its valuers the practicality of moving the valuation date for its land and buildings. The conclusion remained that it would not be possible to produce robust valuations for a portfolio of the scale that the Council holds within the timescales required for production of the draft accounts, if the valuation date were to be moved to 31st March. Looking ahead to 2024-25, following recent consultations from the Government and CIPFA there is the potential for the deadline for production of the draft accounts to be extended and for valuation requirements to be amended. The Council will review its valuation date for 2024-25 once the outcome of these consultations is known.<br>**Audit Update - August 2024:**<br>We consider there remains a risk that asset values are not correctly valued in the financial statements at the year end. We consider management should revise its valuation date for the valuation of fixed assets to the year end, 31 March each year. We will follow up action taken by the Council to implement this recommendation as part of our 2023-24 audit. |
| ✓<br>Implemented | **2. Working Papers:**<br>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.<br>Management should introduce a review process where working papers produced are reviewed by someone independent of the preparers to ensure they agree to the accounts and have been reconciled to FMS as a quality check and signed off to evidence review before being uploaded for auditor access. | **Management response:**<br>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.<br>**Audit update – August 2024:**<br>We have noted major improvements in the timeliness in responding to audit requests and to audit queries, as well as improvements in the quality of working papers provided. Whilst we have noted these improvements, it is important to ensure that officers maintain these improvements as a matter of course going forward to ensure the Council is able to get back on track to a normal audit timetable. This is particularly important to ensure the 2023-24 audit is concluded by the revised backstop date of 28 February 2025. |

# C. Progress against prior year audit recommendations

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

# D. 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 2023 and the Council's useable reserves.

| | Detail | Comprehensive Income and Expenditure Statement (£000) | Statement of Financial Position (£000) | Impact on useable reserves (£000) |
|---|---|---|---|---|
| 1 | *Deferred PFI liabilities* | | | |
| | Long Term liabilities | - | 36,270 | - |
| | Short Term liabilities | - | -36,270 | - |
| | Being the reclassification of PFI liabilities from long term to short term less than one year under current liabilities. Additionally, prior year comparatives require updating for 31 March 2022 and 1 April 2021 resulting in a prior period adjustment and a third balance sheet. Note - the only balance which is changing on the comparatives is in respect of PFI liabilities. There is no impact on useable reserves arising from these adjustments. | | | |
| 2 | Property, Plant and Equipment valuation - Leeds Arena Land (Plot A 6371) | | | |
| | Property, Plant and Equipment – Other land and buildings | - | 1,836 | - |
| | Revaluation Reserve | - | -1,836 | - |
| | Being the valuation of the land in front of the Leeds Arena (Plot A 6371) on Claypit Lane which has been omitted from the Council's accounts. Total valuation understatement in the draft accounts £1,836,000. | | | |
| 3 | Payments cut off testing | | | |
| | Creditors – Accruals | - | -6,001 | - |
| | Property, Plant and Equipment – Assets Under Construction | - | 6,001 | - |
| | Capital grants unapplied | - | 6,001 | - |
| | Capital Adjustment Account | - | -6,001 | - |
| | Cut off testing identified errors of £6,001k relating to under construction capital scheme valuations at 31 March 2023 which had not been accrued. | | | |
| 4 | Grant income | | | |
| | Net Cost of Services Income (Grants) | 8,663 | - | - |
| | Non-ring fenced Government grants | -8,663 | - | - |
| | Correction of classification error relating to grant income. | | | |
| | Overall impact | Nil | Net £Nil | N/a |

# D. 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.

| No. | Adjustment Type | Description and value | Account Balance | Updated in the revised accounts? |
|---|---|---|---|---|
| 1. | Disclosure | Glossary - as in previous year there is no Glossary of Terms included to aid the reader of accounts which we recommend should be added. | - | No |
| 2. | Disclosure | Movement in Reserves Statement (MIRS) - the Code requires the General Fund (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. The Council amended for this last year. | Movement in Reserves Statement | Yes |
| 3 | Disclosure | The Merion House figures have been updated to reflect actual lease commitments per the agreement entered into. We recommended in our Audit Findings Report last year that the Council delete the disclosures relating to Merion House as there are no commitments (rent paid in advance in 2018/19). The Council has not deleted the Merion House disclosures but have added a note to explain that amounts shown have been paid. | Explanatory Note 12.6 - Operating leases | No |
| 4. | Disclosure | Audit fees disclosed in Note 12.5 show fees of £293k whereas audit fees for 2022-23 are £295,604 per Audit Plan so need updating. | Audit Fees – Note 12.5 | Yes |
| 5. | Disclosure | PPE note 15.1 - Text to be added to this note and accounting policies to explain changes the treatment of infrastructure assets. | PPE Note 15.1 | Yes |
| 6. | Disclosure | Net pension asset shown in note 10.1b £53,802k. Disclosure would be improved if note showed how pension fund balance of £98,224k in balance sheet is arrived at. | Net pension asset Note 10.1b | Yes |
| 7. | Disclosure | As in previous year both note 5.c insurance claims and note 5 d appeals against business rates valuations should be removed as not considered material. Also, as in previous year, text should be added to note 5.b Value of property asset to give indication of sensitivity. | Note 5 - Major sources of uncertainty | Yes |

# D. Audit Adjustments

| No. | Adjustment Type | Description and value | Account Balance | Updated in the revised accounts? |
|---|---|---|---|---|
| 8. | Disclosure | Contents page at front of accounts refers to consolidated balance sheet. As there are no group accounts, the word consolidated should be deleted. | Contents page | Yes |
| 9. | Disclosure | There is currently no disclosure/explanation in the accounts for the IFRIC 14 assessment including the assumptions used which should be added. | Pension Notes 3 and 10 | Yes |
| 10. | Disclosure | Note 26 New accounting standards not yet implemented needs to be amended to reflect that IFRS 16 is mandatory from 2024-25. | Note 26 New accounting standards not yet implemented | Yes |
| 11. | Disclosure | The last two tables' headings in this note (PV and Gross Investment) have been transposed and need correcting. | Note 12.9 Finance Leases Out | Yes |
| 12. | Disclosure | Capital commitments of £19m for the period after March 2027 have not been included in note 21.1 and should be added. | Capital Commitments Note 21.1 | Yes |
| 13. | Disclosure | A number of compilation amendments were identified within the assets table in Note 11: the opening and closing balances for 7 schools did not agree with last year's audited accounts (as changes were made to the 2021-22 balances in this area which were concluded in March 2024, after the original 2022-23 accounts had been drafted in July 2023). These will be updated in the finalised 2023-24 accounts. | Note 11 Private Finance Initiative (PFI) | Yes |
| 14 | Management adjustment | Management identified a small number of valuation adjustments to land and buildings which we have considered and which have been processed in the final version of accounts. These amounted to £22.8m which increased the Council's assets with no impact on useable reserves. | PPE | Yes |
| 15 | Management adjustment | Management identified an additional debtor for Migration Yorkshire relating to grant claim monies not fully accrued amounting to £5.6m. This has been adjusted by management. | Debtors | Yes |

# D. Audit Adjustments

## Impact of unadjusted misstatements 2022-23

The table below provides details of adjustments identified during the 2022-23 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 2022-23 |
|---|---|---|---|---|---|
| 1 | **Pension Fund valuation - Pooled Investment Vehicles** | | | | |
| | Remeasurement of the net pension liability | *4,962 | - | - | Not considered material |
| | Pension Asset | - | 4,962 | - | |
| | The West Yorkshire pension fund auditor noted in their IAS19 report an adjusted error relating to Pooled Investment Vehicles (PIVs) of £20.3m relating to all admitted bodies. The Leeds City Council element of this error totals £5.0m (an increase to investment assets). | | | | |
| 2 | **Fees and Charges income** | | | | |
| | Net Cost of Services - Income | 3,572 | - | 3,572 | Not considered material |
| | Creditors – receipts in advance | - | 3,572 | - | |
| | Income from Section 38 agreements with a developers not released to the Comprehensive Income and Expenditure Statement (CIES) £3,572k . | | | | |
| | **Overall impact** | 8,534 | 8,534 | 3,572 | Not considered material |

* This has no impact on General Fund balances

# D. Audit Adjustments

## Impact of prior year unadjusted misstatements from 2021-22

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.

| Detail | Comprehensive Income and Expenditure Statement £000 | Statement of Financial Position £000 | Impact on useable reserves £000 | Reason for not adjusting 2021-22 |
|---|---|---|---|---|
| NONE | - | - | - | - |
| **Overall impact** | **£Nil** | **£Nil** | **£Nil** | - |

# E. Audit fees and non-audit fees

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

| **Audit fees** | **Proposed fee per Audit Plan May 2023** | **Proposed Final fee** |
|---|---|---|
| Council Audit (see detail breakdown at page 40) | £295,604 | £295,604 |
| Total audit fees (excluding VAT) | £295,604 | £295,604* |

** Final fee to be confirmed once all work is completed and we have issued the 2022-23 audit opinion.*

***Note: All variations to the scale fee (see page 40) 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 2022-23 audit fees, a direct response to one of the key findings of the Redmond Review into local authority external audit.*

| **Non-audit fees for other services** | **Proposed fee £** | **Final fee £** |
|---|---|---|
| NONE | - | - |
| Total non-audit fees (excluding VAT) | - | - |

The fees reconcile to the amended financial statements Note 12.5 External Audit Fees.

# E. Audit fees – detailed analysis:

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

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

# F. Auditing developments

## Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
**This impacts audits of financial statement for periods commencing on or after 15 December 2021.**
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

| Area of change | Impact of changes |
|---|---|
| Risk assessment | The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of:<br>• the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures<br>• the identification and extent of work effort needed for indirect and direct controls in the system of internal control<br>• the controls for which design and implementation needs to be assess and how that impacts sampling<br>• the considerations for using automated tools and techniques. |
| Direction, supervision and review of the engagement | Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures. |
| Professional scepticism | The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to:<br>• increased emphasis on the exercise of professional judgement and professional scepticism<br>• an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence<br>• increased guidance on management and auditor bias<br>• additional focus on the authenticity of information used as audit evidence<br>• a focus on response to inquiries that appear implausible. |
| Definition of engagement team | The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor.<br>• Consideration is also being given to the potential impacts on confidentiality and independence.<br>Please note , this is not a group audit. This is only a single entity audit, which is the Council. |
| Fraud | The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to:<br>• clarification of the requirements relating to understanding fraud risk factors<br>• additional communications with management or those charged with governance. |
| Documentation | The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed. |

# G. Management Letter of Representation (draft)

**LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]**

Grant Thornton UK LLP

No 1 Whitehall Riverside

Leeds LS1 4BN

**[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]**

Dear Grant Thornton UK LLP

**Leeds City Council**
**Financial Statements for the year ended 31 March 2023**

This representation letter is provided in connection with the audit of the financial statements of Leeds City Council for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the Council 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 2022/23 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**

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 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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.

The Council has complied with all aspects of contractual agreements that could have a material effect on the Council 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.

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

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 used. 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.

# G. Management Letter of Representation (draft)

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.

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.

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.

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.

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.

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.

Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

We have considered whether the Council is required to reflect a liability in respect of equal pay claims within its financial statements. We confirm that we are satisfied that no liability needs to be recognised or disclosed on the grounds of detailed work undertaken by management of any potential liabilities

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

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 entry 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

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

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.

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**

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.

We have communicated to you all deficiencies in internal control of which management is aware.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

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.

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.

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.

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.

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.

# G. Management Letter of Representation (draft)

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**

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**

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 23 September 2024.

Yours faithfully

| | |
|---|---|
| Name…………………………… | Name ……………………… |
| Position………………………… | Position ……………………… |
| Date…………………………… | Date …………………………... |

**Signed on behalf of the Council**

# H. Audit opinion (proposed draft)

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 2023 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Accounting Policies (including the Statement of accounting concepts and policies, Accounting standards issued but not yet adopted, Critical judgements in applying accounting policies and Assumptions made about the future and other major sources of estimation uncertainty), the notes to the Core Financial Statements, the Notes to the Housing Revenue Account and the Notes to the Collection Fund Statement. 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 2022-23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2023 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 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

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**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 Strategic Director - Finance and Customer Service'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 Strategic Director - Finance and Customer Service'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 2022/23 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 2022) on the application of ISA (UK) 570 Going Concern to public sector entities.

# H. Audit opinion (proposed draft - continued)

We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Strategic Director - Finance and Customer Service's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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.

Our responsibilities and the responsibilities of the Chief Financial Officer - Financial Services with respect to going concern are described in the relevant sections of this report.

### Other information

The other information comprises the information included in the Annual Governance Statement, the Narrative Report and the Statement of Accounts, other than the financial statements, and our auditor's report thereon. The Chief Financial Officer - Financial Services is responsible for the other information. 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.

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 themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this 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, 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.

# H. Audit opinion (proposed draft- continued)

### Responsibilities of the Authority and the Chief Financial Officer - Financial Services

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, 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 Financial Officer - Financial Services. The Chief Financial Officer - Financial Services 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 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer - Financial Services 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 Financial Officer - Financial Services 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 they have been informed by the relevant national body of the intention to dissolve the Authority without the transfer of its services to another public sector entity.

### 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. Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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 (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003), the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.

We enquired of management 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 management, 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 management's 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:

- material closing journals posted during the preparation of the financial statements including periods 12 and 13

- material and unusual journals which fall outside the auditor's expectations which are considered as high risk journals such as journals posted by senior management, journals posted by staff not in the journals posting approval list, journals with no descriptions, journals with unusual descriptions which are outside our expectations and non-routine

Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,

- journal entry testing, with a focus on above high-risk journals ,

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings valuation and pension asset and liability valuation, and

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

# H. Audit opinion (proposed draft - continued)

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.

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.

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. This description forms part of our auditor's report

**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 2023

We have nothing to report in respect of the above matter except on 27 November 2023 we identified:

- a significant weakness in how the Authority plans and manages its resources to ensure it can continue to deliver its services. The Authority has a very challenging financial position with relatively low levels of reserves to meet unforeseen circumstances. For 2022-23, the Authority used reserves of £12.4m to balance its 2022-23 outturn position. In setting its 2023-24 budget, it planned to make use of further reserves. The ongoing use of reserves to balance its financial position is not financially viable. We recommended that the Authority should set out in detail how its proposed transformation plans will enable it to deliver a sustainable, balanced budget year-on-year.
- a significant weakness in the Authority's governance arrangements. This is in relation to the Authority's arrangements to support its engagement with the external audit processes which have resulted in delays in provision of key information and responses to external audit queries as well as issues with the information and working papers provided. We recommended that the Authority needs to strengthen arrangements in engaging in the external audit process and ensure:
  - timely provision of good quality working papers consistently to support the Authority's financial statements (reviewed by an independent officer prior to being provided) and that all working papers reconcile clearly to the core finance system (FMS) or other appropriate systems;
  - increased capacity within the Authority's accounts team to respond promptly and in a timely manner to audit queries or requests for information; and
  - that the expected time commitment and risks associated with introducing the new ledger system, and the other key tasks being undertaken by the finance team, such as budget preparation, do not impact on the availability of key finance staff to engage with external audit to deliver the 2022-23 accounts audit.

**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.

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 undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'.

# H. Audit opinion (proposed draft - continued)

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 document 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 consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

**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 2023 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 2023.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2023.

**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 44 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

xx October 2024

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