



External Audit ISA260 Report 2017/18

DRAFT

Leeds City Council

—
July 2018



Summary for Audit Committee

This document summarises the key findings in relation to our 2017-18 external audit at Leeds City Council ('the Authority').

This report covers both our on-site work which was completed in February and June to July 2018 on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

Organisational and IT control environment

There are no significant issues with the Authority's organisational and IT control environment and we consider that the overall arrangements that have been put in place are reasonable.

Controls over key financial systems

The controls over key financial systems that we have relied on are deemed to be sound and operating effectively. We identified and tested those controls that address key risks within these systems and assessed the extent to which the risk is mitigated through control performance.

Accounts production

The Council has adapted to the faster close for 2017/18, and have provided the accounts and accounts production working papers within set deadlines.

Financial statements

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 31 July 2018.

Based upon our initial assessment of risks to the financial statements (as reporting to you in our External Audit Plan 2017/18 and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing –see Page 10-12):

- **Valuation of PPE** – Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at current value. We considered the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated. Overall, we were satisfied with the approach taken to the valuation of PPE, however, where assets were revalued as at 1 April 2017, we challenged the Authority to demonstrate that carrying amount does not differ materially from that which would be determined using the current value at the end of the period. As a consequence, the Authority has amended asset valuations to reflect the movement in values during the year.
- **Pensions Liabilities** – There is a risk that the assumptions and methodology used in the valuation of the Authority's net pension obligation are not reasonable. This could have a material impact on the net pension liability accounted for in the financial statements. Overall, we are satisfied that the assumptions used to calculate the net pension liability are appropriate.
- **Significant Lease Arrangement** – This was identified as a risk in our audit plan presented to Audit Committee in January 2018. We have subsequently removed this a significant risk as explained in more detail on page 12.

Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help.

Summary for Audit Committee

Financial statements (cont.)

We have identified one audit adjustment with a total value of £74.5 million. Management have also made a number of adjustments since the draft accounts. Those above the reporting threshold have been quantified page 25. These adjustments result in a net decrease of £9.5 million in the reported deficit on provision of services but a £43k impact on the general fund.

Based on our work, we have raised one recommendation. Details of our recommendation can be found in Appendix 1.

We are now in the completion stage of the audit and anticipate issuing our audit opinion on 31 July 2018 subject to timely receipts of adjusted accounts to carry out our final checks. We intend to provide our completion certificate and Annual Audit letter by 31 August 2018.

Value for money arrangements

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion.

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks:

— Financial Resilience

The Authority's budget for 2017/18 was approved at the Council meeting on 22 February 2017 and recognised a need for £64 million in savings. The approved budget included individual proposals to support the delivery of the overall savings requirement.

Given the continuing demand pressures faced in Children's Services, a sum of £3.7m was released into the Children and Families budget for 2017/18, of which £1.4m was funded from general reserves and a net contribution of £2.3m from other reserves. A reduction in the level of general reserves to £18.7m from £20.1m was forecast for 31 March 2018, however following an underspend in year of £6.9m, £5.5m was transferred to the General Fund increasing it to £25m.

During our risk assessment, we concluded that whilst the Authority were on track to meet their savings target and forecast budget for the year, the ongoing demand pressures and level of savings continued to have a significant impact on the Authority's financial resilience.

Overall, we consider the Authority to have adequate arrangements in place regarding the management of its financial risks and potential impact on resource deployment. See further details on page 20-21.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

Section one

Control Environment



Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.

We have noted a number of areas for further improvement relating to access controls.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology ("IT") to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. KPMG IT Specialists have tested the operating effectiveness of access to data, programme change, IT operational and application controls over the FMS and SAP system. Please see accompanying "IT Audit Findings" report for further details.

Key findings

We consider your organisational and IT controls to be effective overall, however two medium priority areas were noted for further improvement during our IT control audit:

- System Password Parameters (Database / UNIX Servers): Management should review and amend the password configuration within the systems to ensure alignment to both the internal Council policy and also to good practice.
- User Access – Privileged Users (SAP Payroll) - Periodic reviews should be undertaken over all accounts with privileged access assigned. Privileged access should be removed from all user accounts where it is not required for current tasks or an individuals job role.
- Please refer to "IT Audit Findings" report for further details.

Aspect of controls	Assessment	Key
Organisational controls:		
Management's philosophy and operating style	3	1 Significant gaps in the control environment.
Culture of honesty and ethical behaviour	3	2 Deficiencies in respect of individual controls
Oversight by those charged with governance	3	3 Generally sound control environment.
Risk assessment process	3	
Communications	3	
Monitoring of controls	3	
IT controls:		
Access to systems and data	2	
System changes and maintenance	3	
Development of new systems and applications	3	
Computer operations and end-user computing	3	

Controls over key financial systems

We consider the controls over the key financial systems we have relied on for our testing to be sound.

Work completed

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors’ opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on our work we have determined the controls over the key financial systems we have relied on for our testing to be sound.

Aspect of controls	Assessment	Key	
Property, Plant and Equipment	3	1	Significant gaps in the control environment
Cash and Cash Equivalents	3	2	Deficiencies in respect of individual controls
Pension Assets and Liabilities	3	3	Generally sound control environment
Non pay expenditure	3		
Payroll	3		
Housing benefits expenditure	3		
Business rates income	3		
Council tax income	3		
HRA rental income	3		
HRA repairs and maintenance expenditure	3		
[Any other financial systems]	3		
[Any relevant Pension Fund systems]	3		

An overhead photograph of four business professionals (three women and one man) seated around a white conference table. They are dressed in business attire (white shirts, light blue shirts, and a grey top). The table has two laptops and a black folder. The scene is brightly lit with natural light from windows on the right, creating strong shadows on the floor and table. A blue horizontal band is overlaid across the middle of the image, containing the text.

Section two

Financial Statements

Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

The Authority's overall process for the preparation of the financial statements is adequate.

The Authority has implemented the recommendation made in our *ISA 260 Report 2016/17*.

Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerge.

We consider that the overall process for the preparation of your financial statements is adequate. The areas which you need to pay particular attention to for 2018/19 relate to the valuation dates for property, plant and equipment. To date the authority has obtained valuations is as at 1 April. However, to avoid any material uncertainty over the valuations, the Authority should consider amending the valuation date to the year end where possible. Where this is not possible, the Authority should prepare a paper to demonstrate the assets valuations would not differ materially had they been valued at the year end (see recommendation on page 23).

Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority continue as a going concern.

Further commentary on the Authority's arrangements in place to secure the effective delivery of budgets is included at page 20 and 21.

Implementation of recommendations

We raised one recommendation in our ISA 260 Report 2016/17 relating to the financial statements. The Authority has implemented this recommendation in line with the timescales of the action plan.

In 2016/17, we reported separately on IT General Controls. In total we identified eight recommendations. Of these, three have been implemented and three are partly resolved. Of the outstanding recommendations, two were classed as medium priority. Details of these recommendations is included on page 4.

Accounts production and audit process (cont.)

Completeness of draft accounts

We received a complete set of draft accounts on 31 May 2018 which was in advance of the statutory deadline.

Quality of supporting working papers

We issued our Accounts Audit Protocol to the Principal Finance Manager on 22 May 2018. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority to provide audit evidence in line with our expectations.

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good-quality working papers with clear audit trails.

Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was generally achieved by Officers, including those who are not part of the finance team. As a result of this, all of our audit work were completed within the timescales expected.

During the audit, we identified a number of areas where supplementary working papers were required in order for the Authority to support accounting judgments made within the financial statements. Due to the technical nature of these requests that predominantly related to the valuation of property, plant and equipment, a number of delays were experienced. We understand that the Authority will seek to consider and document responses to these requests into the close-down process for future years.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements by 31 July 2018

For the year ending 31 March 2018, the Authority has reported a deficit on provision of services of £16.2m. The impact on the General Fund has been an increase of £5.6m.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

02

Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2017-18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements.

Specific audit areas

Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:

Valuation of PPE

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the current value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.

This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end current value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the current value is different at the year end.

Our assessment and work undertaken:

We undertook the following work over the valuation of material land and building balances:

- Assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).
- In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.
- Critically assessed the Authority's formal consideration of indications of impairment within its estate, including the process undertaken and the adequacy of the documentation used in the process. This was adequate for the purposes of the audit.
- Reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.
- Critically assessed the appropriateness of the Authority's decision to adopt the HRA adjustment factor, provided by DCLG. We are satisfied the adjustment factor applied is in line with sector norms.
- Considered the adequacy of the disclosures about the key judgements and degree of estimation involved in concluding any change in value of land and buildings since 31 March 2017. These were appropriate.
- Critically assessed the appropriateness of BCIS indices used in DRC valuations and applied during the year. We have re-performed uplift calculations to confirm that any material movement in the value of land and building assets was calculated appropriately and reflected market conditions. The BCIS indices used were in line with the regional indices provided by RICS.
- Given assets are revalued as at 1 April 2017, we challenged the Authority to demonstrate carrying amounts did not differ materially from that which would be determined using the current value at the end of the period. Consequently, the Authority has amended asset valuations to reflect the movement in values during the year. The impact of this change has been to increase the value of the Authority's asset base by £74.5m.
- In addition, we have consulted KPMG's internal valuation specialists to determine the appropriateness of the valuation methodology applied to school land assets.

As a result of our work and subject to the material adjustment references above, we have determined that the value of the Authority's PPE balance included within the financial statement is fairly stated. Further details of the adjustment can be found at appendix 1.

We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 13.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:	<p>Pension Liabilities</p> <p>The net pension liability represents a material element of the Authority’s balance sheet. The Authority is an admitted body of the West Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority’s overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority’s valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority’s employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year on year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Authority’s pension obligation are not reasonable. This could have a material impact on the net pension liability accounted for in the financial statements.</p>
Our assessment and work undertaken:	<p>As part of our work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary, including the Authority’s process and controls with respect to the assumptions used in the valuation. We also liaised with the auditors of the West Yorkshire Pension Fund, Mazars, in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will also evaluate the competency, objectivity and independence of Scheme Actuary, Aon Hewitt.</p> <p>We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges provided by a KPMG Actuary based on a specialist assessment. The KPMG Actuary also reviewed the methodology applied in the valuation by Aon Hewitt.</p> <p>In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. Our work has also considered the roll forward of the assets undertaken by the actuaries and the allocation of those assets to the Authority.</p> <p>We noted that, consistent with many pension funds given the faster close process of Local Government accounts, the actuaries have used estimated investment rates of returns for the last month of 2017/18. This did not impact the Authority because following management challenge of the draft IAS 19 report, relating to an additional payment which had not been accounted for by the Actuary, the revised report was updated with the actual investment rates at 31 March 2018. This eliminated any risk of estimation and there was therefore no impact on the reported pension fund assets and net liability.</p> <p>As a result of this work we determined that the pension asset and liability has been appropriately accounted for in the accounts.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 14.</p>

Specific audit areas (cont.)

Removal of Significant Audit Risk – Authority (cont.)

Risk:	<p>Significant Lease Arrangement</p> <p>During planning , we identified the Authority was about to enter into a new lease arrangement. At that point, the building was being leased on a finance lease and subsequently impaired to nil value following closure for redevelopment. Once the redevelopment was complete, the Authority was to enter into new lease with a third party joint venture (in which the Authority has a 50% stake). The new lease would be a 25 year operating lease.</p> <p>Within the Authority’s Forward Plan there was an intention to renegotiate the payment schedule of the lease. It was intended this would be finalised before the end of the financial year. This had the potential to have a material impact on the balance sheet.</p> <p>Given the unusual nature of the transaction and likely significance in value, we needed to ensure the transaction is being accounted for correctly in line with accounting standards and the Code. We also need to consider the value for money arrangements with respect of this agreement.</p> <p>The renegotiation of the payment schedule was not completed at year end so the Authority have entered into a basic 25 year operating lease, recognising this in their financial statements at 31 March 2018.</p>
Our assessment and work undertaken:	<p>We identified this transaction as a significant risk on the basis that the developer agreement would, per the Authority’s Forward Plan, intend to renegotiate the payment schedule of the lease with a third party joint venture. Given the agreement was not reached by 31 March 2018, we no longer consider this to have a significant impact on the financial statements, and have derecognised this as a significant risk.</p> <p>We have reviewed the approach used by the Authority to account for the lease agreement and consider it appropriate and in line with accounting standards.</p>

Other areas of audit focus

Issue:	<p>Faster Close</p> <p>In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.</p> <p>During 2016/17, the Authority started to prepare for these revised deadlines and advanced its own accounts production timetable so that draft accounts were ready by 31 May. Whilst this was an advancement on the timetable applied in preceding years, we worked with the Authority to ensure working papers and evidence were ready for the earlier visit. In turn, this enabled the Authority to meet the statutory deadlines for 2017/18.</p>
Our assessment and work undertaken:	<p>Our audit team liaised with officers to agree appropriate timescales for the production of the final version of the accounts and our ISA260 report in advance of the July meeting of the Corporate Governance and Audit Committee.</p> <p>We liaised with officers early in the process in preparation of each stage of the audit. We agreed to advance audit work into the interim visit in order to streamline the year end audit work.</p>

Judgements

We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	Audit Difference
	Acceptable Range					

Subjective area	2017-18	2016-17	Commentary
Provisions (excluding Business Rates)	3	3	The value of non-business rates provisions (£16.6m) remains lower than our headline materiality of £25m. Consistent with prior years, the majority of these provisions relate to the estimated value of outstanding insurance claims, £10.1m in 2017/18 (£10.9m in 2016/17). We have agreed this figure to workings provided by the Council and have deemed this a reasonable recognition.
Business Rates provision	3	3	The NNDR provisions held at year end (£5.6m) remains lower than our headline materiality of £25m and have decreased significantly in year (>£5m). This is in line with our expectations and is based upon a increase in appeal settlements in year. We have assessed the workings for the NNDR provision and the methodology behind the calculations and we are content that these are appropriately balanced and based upon recent historical trends and knowledge of current cases addressed by HMVO.
Property Plant & Equipment: HRA Assets	0	4	<p>The Authority continues its use of the beacon methodology in line with the DCLG's <i>Stock Valuation for Resource Accounting</i> published in November 2016. The Authority has utilised internal valuation expert to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions.</p> <p>However, as discussed on page 10, because HRA assets are revalued as at 1 April 2017, we challenged the Authority to demonstrate that valuations remain valid as at 31 March 2018. Following application of market value indices for the period to 31 March 2018 which suggested a material change, the Authority has amended asset valuations to reflect the movement in values during the year. This has been reported in Appendix 3.</p>
Property Plant & Equipment: Non-HRA Assets	0	4	<p>The overall value of PPE has increased by £507.9m (before audit adjustments). This increase mostly relates to revaluation in year of £440.4m (of which £403.3m relates to Land and Building assets). The majority of assets are revalued by the internal valuers. The main driver behind the increase in 2017-18, related to valuation of School Playing fields, is due to a change in assumptions on whether replacement land at greenspace values would be obtainable in the relevant geographical areas.</p> <p>From our review of your approach to revaluation and impairment of assets, and the reliability of the valuers' work, we concluded that a complete list was provided to the valuers and the assumptions used by the valuers were appropriate.</p> <p>However, as above, following application of BCIS indices which demonstrated a material increase in the value of DRC buildings between 1 April and 31 March, the Authority have adjusted the accounts to reflect this movement.</p>

Judgements (cont.)

Subjective area	2017-18	2016-17	Commentary																															
Valuation of pension assets and liabilities	4	3	<p>The Authority continues to use AON Hewitt to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. For example, a 0.1% change in the discount rate would change the net liability by £82 million.</p> <p>The actual assumptions adopted by the actuary fell within our expected ranges as set out below:</p> <table><tr><th>Assumption</th><th>Actuary Value</th><th>KPMG Range</th><th>Assessment</th></tr><tr><td>Discount rate</td><td>2.60%</td><td>2.35-2.65%</td><td>4</td></tr><tr><td>CPI inflation</td><td>2.10%</td><td>1.91-2.41%</td><td>3</td></tr><tr><td>Net discount rate</td><td>0.5%</td><td>(0.06)-0.74%</td><td>4</td></tr><tr><td>Salary Growth</td><td>3.35%</td><td>1.91-4.41%</td><td>3</td></tr><tr><td>Life expectancy</td><td></td><td></td><td></td></tr><tr><td> Current male / female</td><td>23.5/ 22.1</td><td>23.5/22.1</td><td rowspan="2">2</td></tr><tr><td> Future male/female</td><td>27.1/ 23.9</td><td>25.4/23.9</td></tr></table> <p>We noted that there were some immaterial differences in the pension asset and liability figures due to estimates being updated by the actuary during and following the pension fund audit process. We are satisfied that the estimates used to reach the figures disclosed in the Council's accounts remain materially correct and based upon reasonable assumptions and would have no impact on the reader's interpretation of the accounts.</p>	Assumption	Actuary Value	KPMG Range	Assessment	Discount rate	2.60%	2.35-2.65%	4	CPI inflation	2.10%	1.91-2.41%	3	Net discount rate	0.5%	(0.06)-0.74%	4	Salary Growth	3.35%	1.91-4.41%	3	Life expectancy				Current male / female	23.5/ 22.1	23.5/22.1	2	Future male/female	27.1/ 23.9	25.4/23.9
Assumption	Actuary Value	KPMG Range	Assessment																															
Discount rate	2.60%	2.35-2.65%	4																															
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Salary Growth	3.35%	1.91-4.41%	3																															
Life expectancy																																		
Current male / female	23.5/ 22.1	23.5/22.1	2																															
Future male/female	27.1/ 23.9	25.4/23.9																																



Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority’s 2017-18 financial statements following approval of the Statement of Accounts by the Audit Committee on 30 July.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4) for this year’s audit was set at £25 million. Audit differences below £500k are not considered significant.

Our audit identified a total of one significant audit difference, which we set out in Appendix 3. Management also identified a number of audit differences during the audit. We have reported those above our reporting threshold (£500k). It is our understanding that these will be adjusted in the final version of the financial statements.

The tables below illustrate the total impact of audit differences on the Authority’s movements on the General Fund and Housing Revenue Account for the year and balance sheet as at 31 March 2018. The net impact on the General Fund and Housing Revenue Account as a result of audit adjustments is nil.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 (‘the Code’). We have set out details of significant presentational adjustments in Appendix 3. We understand that the Authority will be addressing these where significant.

Movement on the General Fund 2017-18			
£m	Pre-Audit	Post-Audit	Ref ¹
Deficit on the provision of services	25.4	16.2	2
Adjustments between accounting basis and funding basis under regulations	99.8	90.6	2
Transfers to earmarked reserves	0.9	0.9	
Increase in General Fund and Housing Revenue Account	5.6	5.6	

Balance Sheet as at 31 March 2018			
£m	Pre-Audit	Post-Audit	Ref ¹
Property, Plant & Equipment	5,192	5,275	1,2
Other long term assets	233.3	233.3	
Current assets	279.2	279.2	
Current liabilities	677.9	678.3	3
Long term liabilities	3,482	3,482	
Net worth	1,544	1,627	
General Fund	25.6	25.6	
Other useable reserves	255.1	255.1	
Unusable reserves	1,264	1,346	1,2
Total Reserves	1,545	1,627	

¹ See referenced adjustments in Appendix 3.

Proposed opinion and audit differences (cont.)

Annual governance statement

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that:

- It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.



Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Leeds City Council for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Leeds City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Chief Finance Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017-18 financial statements.

Section three

Value for Money Arrangements



Specific value for money risk areas

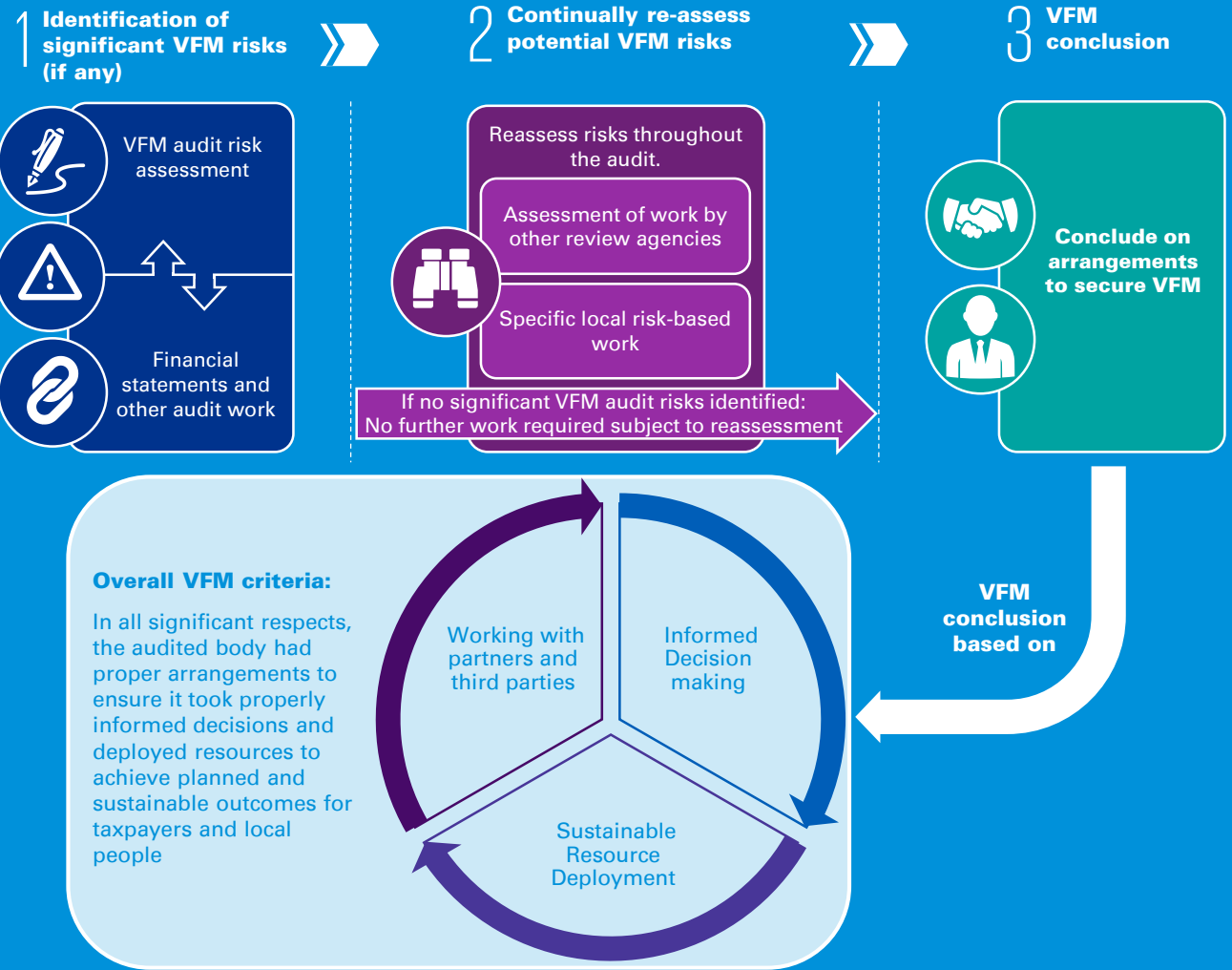
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority ‘has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources’.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to ‘take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor’s judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body’s arrangements.’

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



Specific value for money risk areas (cont.)

The table below summarises our assessment of the individual VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

Applicability of VFM Risks to VFM sub-criteria

VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties	
Financial Resilience	✓	✓	✓	

In consideration of the above, we have concluded that in 2017-18, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

As communicated to you in our *External Audit Plan 2017-18* we have identified one risk requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority’s current arrangements in relation to these risk areas are adequate.

We have provided below a summary of the risk areas identified:

Risk:	Financial Resilience The Authority’s budget for 2017/18 was approved at the Council meeting on 22 February 2017 and recognised a need for £64 million in savings. The approved budget includes individual proposals to support the delivery of the overall savings requirement. The Authority continues to face demand pressures in Children’s Services. A sum of £3.7m has been released into the Children and Families budget for 2017/18, of which £1.4m has been funded from general reserves and a net contribution of £2.3m from other reserves. This was due to reduce the level of general reserves to £18.7m from £20.1m as at 31 March 2018, however following an underspend in year of £6.9m, £5.5m was transferred to the General Fund. During our risk assessment, whilst the Authority were on track to meet their savings target and forecast budget for the year, the ongoing demand pressures continue to have a significant impact on the Authority’s financial resilience.
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Further details on the work done and our assessment are provided on the following pages.

Specific value for money risk areas (cont.)

We have provided below a summary of our work undertaken and the conclusions reached.

Our assessment and work undertaken:

As part of our additional risk based work, we reviewed the controls the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors.

The Authority reported an underspend of £6.95m at 31 March 2018. This was primarily a result of a £7.3m payment from HMRC relating to overpaid output VAT in respect of admission charges at the Council's sporting facilities in 2017/18. Overall, the Authority managed its resources well, recognising only a small overspend of £350k in one directorate, City Development.

Despite considerable savings since 2010, the budget for 2018/19 requires the Council to deliver a further £34m of savings. At this early stage of the financial year, the financial monitoring report for month two indicated the majority of the actions to deliver these savings are on track. However, the report highlights a potential overall overspend of £2.2m (£2.9m 2016/17) and measures will need to be identified and implemented so that a balanced budget position can be delivered.

Through our VFM work, we have considered how the Authority is managing its savings plans to assess whether this has had an unintended adverse impact on service delivery. We have reviewed the high level assumptions and substantively reviewed progress against achievement of a sample of individual savings proposals used by the Authority to prepare its budget. We have found these to be in line with our knowledge and expectations. The Authority recognises the risks in relation to the use of assumptions, some of which have the potential to cause a significant impact to the budget if they are not robust, and it will need to keep these under review over the coming months.

We assessed the level of reserves available at 31 March 2018 against the Authority's reserves policy, taking into account any contingent liabilities which could have a significant impact on the Authority's financial standing if they were to crystallise. The Authority have demonstrated they have managed the level of reserves effectively in recent years despite the budgetary pressures they face. Overall we consider the Authority to have adequate arrangements in place regarding the management of its financial risks and potential impact on resource deployment.

Appendices



Key issues and recommendations

Our audit work on the Authority’s 2017-18 financial statements has two issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management’s responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority Rating for Recommendations

1	Priority One: Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk. Recommendations Raised: 0	2	Priority Two: Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system. Recommendations Raised: 2	3	Priority Three: Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. Recommendations Raised: 0
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No.	Risk	Issue & Recommendation	Management Response
2	2	Valuation of land and buildings at 31 March Risk The Authority revalue assets on a rolling valuation basis. DRC buildings which are not revalued as part of the rolling valuation are subject to an uplift using build cost indices (BCIS). In each scenario valuations are as at 1 April, which is allowable under the Code of Practice. However, the Code also requires Authorities to demonstrate that carrying amount does not differ materially from that which would be determined using the current value at the end of the period. We challenged the Authority to demonstrate this by applying BCIS indices for the period to 31 March 2018. This evidence that the asset base was materially different from the value as at 1 April, suggesting a material misstatement in the accounts. We therefore requested the Authority adjust to reflect the current value of the properties (applying an indexation of 3.8%) and remove the risk of material error from the financial statements. Recommendation Going forward the Authority should move the effective valuation date as close to the reporting date as is practical, to minimise the risk of material error. Given the practicalities of facilitating this, it may be necessary to value at an earlier date and apply an indexation for the remaining months. In addition, we understand the Authority are moving to an annual valuation for all DRC assets using an updated system for valuing assets. This will contribute to ensuring DRC land and buildings remain fairly stated at the reporting date.	<p>The council will discuss its valuation approach to land and buildings with its incoming auditors and its valuers.</p> <p>Responsible Officer Principal Financial Manager (Corporate Financial Management)</p> <p>Implementation Deadline September 2018</p>

Follow-up of prior year recommendations

The Authority has implemented the recommendation raised through our previous audit work.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2016/17*.

Number of recommendations that were

Included in the original report	1
Implemented in year or superseded	1
Outstanding at the time of our interim audit	0

No.	Risk	Issue & Recommendation	Management Response	Status as at July
2	2	<p>Critically challenging asset valuation assumptions</p> <p>Risk</p> <p>During the audit we identified there is no formal documentation in place which evidences management challenge of the assumptions adopted by internal valuers.</p> <p>For example, in 2016/17, we challenged the indices applied to the non-rolling valuation programme assets and the rationale for using MEA (modern equivalent asset valuation) as a basis for DRC (Depreciation Replacement Cost). We are satisfied that management have challenged and understood the basis for these changes, however, documented evidence was not provided to support this review.</p> <p>In addition, we specifically requested the Authority provide evidence to demonstrate the Authority's Housing Stock was consistent in type and nature to the region to establish whether adoption of the regional adjustment factor was appropriate.</p> <p>Without formal documentation of review, there is no evidence to demonstrate management's challenge of the valuers assumptions and that sufficient review of the process has taken place.</p> <p>Recommendation</p> <p>The Authority have demonstrated there is a process in place to challenge assumptions, identify impairments and changes in asset classification. This process is documented in a procedure note.</p> <p>Whilst, we have reviewed elements of this throughout our audit work, in preparation for next year, the Authority should bring a formal review of assumptions and impairment together into one paper, with supporting evidence, to make for an effective audit trail.</p> <p>In light of Faster Close, this will ensure Central Finance are fully assured over asset values in the year end accounts, and this can be easily evidenced for the audit team to review.</p>	<p>The council will look at ways to ensure that discussions during the valuation process between the corporate finance team and the council's valuers in Asset Management are more fully documented.</p> <p>Responsible Officer</p> <p>Principal Financial Manager (Corporate Financial Management)</p> <p>Implementation Deadline</p> <p>May 2018</p>	<p>The Authority were able to demonstrate their discussion and challenge of the internal valuers. However, as stated in this year's recommendation, we encourage the Authority to engage further with the valuers as the Authority moves to ensuring assets are fairly stated at 31 March 2018.</p>

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee).

We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2017-18 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences – Authority

The following table sets out the significant audit differences identified by during the audit of Leeds City Council's financial statements for the year ended 31 March 2018. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Table 1: Adjusted audit differences – Authority (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Cr Surplus on reval of fixed assets 8,451	Dr Capital Accounting Balances 8,451	Dr PPE 8,451		Cr Revaluation Reserves 8,451	Updated revaluation for Pudsey Bolton Royd (-£1,787k) and Roundhay School revaluation (£10,238k).
2a	Cr Surplus on reval of fixed assets 43,409 Cr Net Cost of services 9,454	Dr Capital Accounting Balance 43,409 Dr Capital Reserves 9,454	Dr PPE 52,863		Cr Revaluation Reserve 43,409 Cr Capital Adjustment Account 9,454	Following challenge to management to demonstrate carrying amount does not differ materially from current value, an adjustment has been made to account for extra 3.8% indexation applied to DRC valued assets
2b	Cr Surplus on revaluation of fixed assets 21,626	Dr Capital Accounting Balance 21,626	Dr PPE 21,626		Cr Revaluation Reserve 21,626	As above. An indicative percentage increase of 2.65% has been applied, to reflect application of the UK Housing Price Index (UKHPI) at March 2018.
3	Dr NNDR Income and Expenditure 509	Cr Statutory revenue reserves 509		Cr Provision for current liabilities 509	Dr Collection Fund Adjustment Account 509	Amendment to figures to take into account increase in provision for business rates appeals
Cr 82,431		Dr 82,431	Dr 82,940	Cr 509	Cr 82,431	Total impact of adjustments (above AMPT)

Unadjusted audit differences

There are no unadjusted audit differences

Audit differences (cont.)

Presentational adjustments - Authority

We identified a number of presentational adjustments required to ensure that the Authority’s financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 (‘the Code’).

Whilst the majority of these adjustments were not significant, we identified a limited number of adjustments of a more significant nature and details of these are provided in the following table.

It is our understanding that these will be adjusted, and we will confirm this to the final version of the financial statements.

Table 5: Presentational adjustments – Authority

No.	Basis of audit difference
1	We requested the Authority include Long Term Investments as a separate note to the accounts given this is highly material. Management have agreed to include this.
2	Following the signing of a 25 year lease agreement with a third party joint venture (in which the Authority has a 50% stake), we requested the Authority disclose the future minimum lease payments relevant in an Operating Lease note. Given the size of the operating lease balance in historically, this had not been disclosed in the financial statements. Management have agreed to this change.

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in January 2018.

Materiality for the Authority's accounts was set at £25 million which equates to around 1.3 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.5 million for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Appendix 5:

Required communications with the Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified one adjusted audit differences with a total value of £74.5 million. Management have also identified adjustments through the course of the audit, we have reported those above the reporting threshold. See page 25 for details. These adjustments result in a net decrease of £9.5 million in the reported deficit on provision of services but a nil impact on the general fund. See page 15 for further details.
Unadjusted audit differences	No unadjusted audit differences.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including confirmation that there were no significant deficiencies identified, in Section one of this report (see pages 4 to 5).
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Appendix 5:

Required communications with the Audit Committee (cont.)

Required Communication	Commentary
Other information	<p>No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement.</p> <p>These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.</p>
Our declaration of independence and any breaches of independence	<p>No matters to report.</p> <p>The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence.</p> <p>See Appendix 6 for further details.</p>
Accounting practices	<p>Over the course of our audit, we have evaluated the appropriateness of the Authority’s accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 14.</p>
Significant matters discussed or subject to correspondence with management	<p>The following significant matters arising from the audit were discussed, or subject to correspondence, with management.</p> <ul style="list-style-type: none">— Valuation of Land and Buildings— Pension Liabilities



Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF LEEDS CITY COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to this audit engagement [and that the safeguards we have applied are appropriate and adequate] is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity are in place.

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix 7, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	231,953	231,953
Total audit services	231,953	231,953
Allowable non-audit services	0	75,000
Mandatory assurance services	15,923	17,721
Total Non Audit Services	15,923	92,721

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	0	15,923

Declaration of independence (cont.)

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.



KPMG LLP

Appendix 7:

Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £231,953 plus VAT (£231,953 in 2016/17), which is consistent with the prior year.

Our work on the certification of the Authority’s Housing Benefit Subsidy return is [not yet complete / planned for MONTH 2017]. The planned scale fee for this is £15,923 plus VAT (£17,721 in 2016/17).

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee (Leeds City Council)	231,953	231,953
Total audit services	231,953	231,953
Mandatory assurance services		
Housing Benefits Certification (work planned for August)	15,923	17,721
Total mandatory assurance services	15,923	17,721
Total non-audit services	15,923	17,721
Grand total fees for the Authority	247,876	249,860

All fees quoted are exclusive of VAT.





The key contacts in relation to our audit are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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