



Annual Audit Letter 2017/18

Leeds City Council

—

30 August 2018



A group of business professionals in a meeting, looking at documents. The image is a close-up, slightly blurred, showing several people in business attire. A woman with dark hair is on the left, looking down. A man with grey hair is in the center, also looking down. A woman with dark hair is on the right, looking down. They are all wearing suits and ties. The background is out of focus, suggesting an office or conference room setting. The overall tone is professional and focused.

Section one

Summary for Audit Committee

Section one:

Summary for Audit Committee

This Annual Audit Letter summarises the outcome from our audit work at Leeds City Council (“the Authority”) in relation to the 2017-18 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority’s website.

Audit opinion

We issued an unqualified opinion on the Authority’s financial statements on 31st July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. 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.

We report to the Audit Committee any misstatements of lesser amounts, other than those that are “clearly trivial”, to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.75 million for the Authority.

We have identified one audit adjustment with a total value of £105.6 million in relation to asset valuations. Management have also made a number of adjustments since the draft accounts. Those above the reporting threshold have been quantified on 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.

Our audit work was designed to specifically address the following significant risks:

- **Valuation of Property, Plant and Equipment** – 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 were satisfied that the assumptions used to calculate the net pension liability are appropriate.

Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.

Section one:

Summary for Audit Committee (cont.)

Whole of Government Accounts

We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.

Value for Money conclusion

We issued a unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2017-18 on 31st July 2018. We completed our risk-based work to consider whether in all significant respects the Authority had 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 concluded that the Authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

Value for Money risk areas

We set out our assessment of those areas requiring additional risk based work in our External Audit Plan 2017/18 and updated this assessment during our interim visit. As a result of this we 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 planning and 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 challenge the Authority's financial resilience.

However, following our work carried out during the year, we concluded the Authority had adequate arrangements in place regarding the management of its financial risks and potential impact on resource deployment.

High priority recommendations

We raised no high priority recommendations as a result of our 2017-18 work.

Section one:

Summary for Audit Committee (cont.)

Certificate

We received an objection to the Authority's financial statements in 2016/17 which has yet to be finalised. This means that we are not yet been able to issue our certificate for the 2016/17 or 2017/18 audits.

Audit fee

Our fee for 2017-18 was £231,953, excluding VAT (2017: £231,953). Our fee for the mandatory assurance services, around Housing benefits certification was £15,923 excluding VAT (2017: £17,721).

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.



Appendices



Appendix 1:

Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter. These reports can be accessed via the Audit Committee pages on the Authority's website at www.Leeds.gov.uk.

Certification of Grants and Returns

This report summarised the outcome of our certification work on the Authority's 2016-17 grants and returns.

External Audit Plan

The External Audit Plan set out our approach to the audit of the Authority's financial statements, and to support the VFM conclusion.

Report to Those Charged with Governance

The Report to Those Charged with Governance summarised the results of our audit work for 2017-18 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Auditor's Report

The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate.

Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2017-18.

2018

January

February

March

April

May

June

July

August

September

October

Appendix 2:

Audit fees

This appendix provides information on our final fees for the 2017-18 audit.

External audit

Our final fee for the 2017-18 audit Leeds City Council was £231,953, which is in line with the planned fee.

Certification of grants and returns

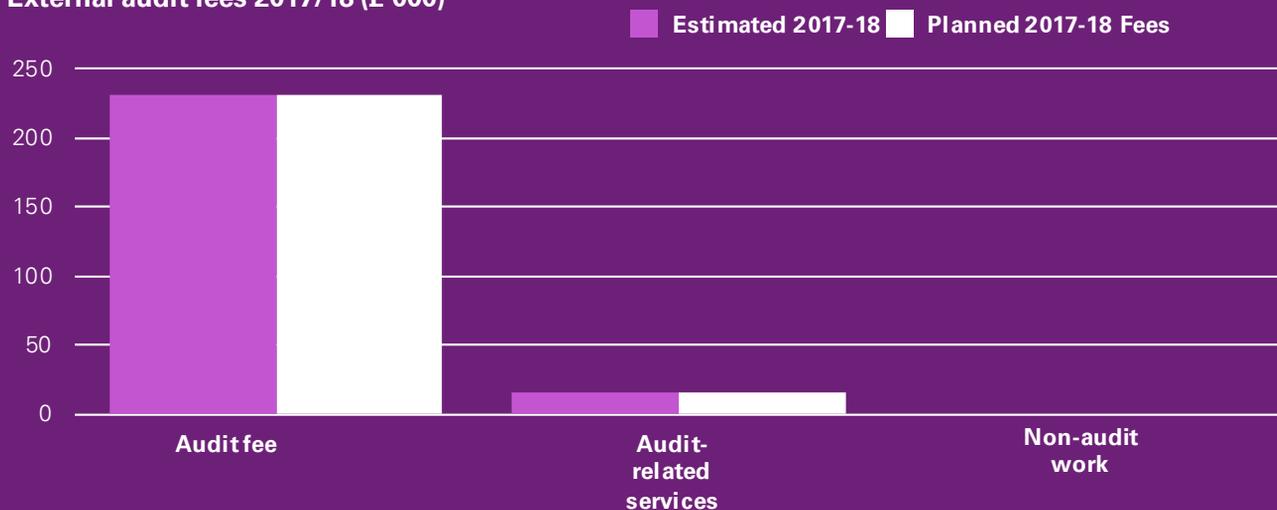
Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is ongoing. The planned fee for this work is £15,923 and the final fee will be confirmed through our reporting on the outcome of that work in January 2019.

Other services

We did not charge any additional fees for other services.

All fees quoted are exclusive of VAT.

External audit fees 2017/18 (£'000)





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.psa.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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