

The Audit Findings (ISA260) Report for Leeds City Council

Year ended 31 March 2019

18 July 2019



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Leeds City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<p>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:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>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.</p>	<p>Our audit work commenced as planned at the beginning of June and at the time of this report, is nearing completion. Our key audit findings are summarised in this report.</p> <p>Based on our audit work to date, we have not identified any adjustments that impact on the useable reserves of the Council, however, there is one national issue identified after the balance sheet date affecting the Council's primary statements relating to pension liabilities resulting from the McCloud judgement and the associated Guaranteed Minimum Pension indexation, the total adjustment amounts to an increase in the pension liability of £47.4m. In addition, the Council has processed six adjustments to the draft accounts presented for audit which in total increase the value of Council assets by £6.5m, and a further £3.3m to increase the NNDR appeals provision.</p> <p>As stated above, none of these adjustments impact on the Council's General Fund and useable reserves position. Further details of the audit adjustments are included at Appendix B. In addition, we have also raised a small number of recommendations for management as a result of our audit work in the Action Plan at Appendix A.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our proposed audit opinion (as set out at Appendix D), or material changes to the financial statements, subject to the following outstanding matters:</p> <ul style="list-style-type: none">• finalisation of testing and review of the work done by the engagement lead and manager in the following sections;- completing our work on financial instruments, employee remuneration, operating expenditure, PPE, pension fund assets and liabilities, creditors, revenue streams, cash flow, senior officer disclosures and related party transactions• review of the updated pension fund liability and related disclosures in light of the changes required following the McCloud judgement and Guaranteed Minimum Pension (GMP) requirements (we will review the updated accounting entries and disclosures upon receipt from the Council's actuary)• review of the action taken to implement findings from the 'cold review' of the Council's 2017-18 financial statement disclosures• procedures for Whole of Government Accounts• reviewing the final version of the financial statements and Annual Governance Statement• obtaining and reviewing the management letter of representation• updating our post balance sheet events review, to the date of signing the opinion. <p>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.</p> <p>We expect to issue an unqualified (clean) audit opinion by 31 July 2019.</p>
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Headlines – continued

Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

We have completed our risk based review of the Council's value for money arrangements. We have concluded that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money conclusion, as detailed at Appendix D.

We have raised one recommendation for management as a result of our VFM work at Appendix A in relation to the future level of Council reserves.

Our findings from our VFM work are summarised on pages 16 to 20.

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
- to certify the closure of the audit.

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

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

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

2. Summary

Overview of the scope of our audit

This Audit Findings 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.

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

Audit approach

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

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

We have not had to alter or change our Audit Plan, as communicated to you on 7 January 2019.

Conclusion

Subject to outstanding work and queries being satisfactorily completed and resolved (previously listed on page 3 of this report), we anticipate issuing an unqualified audit opinion following the Corporate Governance and Audit Committee on 26 July 2019, as detailed at Appendix D.

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. We have revised our calculation of materiality on receipt of the Council's draft 2018-19 accounts given the increase in expenditure during the year. Our revised materiality calculations are set out in the table below.

Materiality category	Planning Materiality (£)	Revised Materiality (£)	Qualitative factors considered
Materiality for the financial statements	24,011k	26,424k	Materiality has been based on 1.3% of the Council's gross expenditure from the 2018-19 draft accounts. This is in line with the industry standard and reflects the risks associated with the Council's operational environment.
Performance materiality	15,607k	17,176k	Our performance materiality has been set at 65% of our overall materiality. This reflects any significant findings from the work of the previous external auditor and that 2018-19 is the first year of audit for us as external auditors.
Trivial matters	720k	793k	A standard level of five per cent of materiality has been used. This is our reporting threshold for any errors identified.
Materiality for specific transactions, balances or disclosures.	5k	5k	The senior officer remuneration disclosure in the Statement of Accounts has been identified as an area requiring a lower materiality due to its sensitive nature

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 The revenue cycle includes fraudulent transactions (rebutted)</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>Auditor commentary</p> <p>We rebutted the risk at the planning stage of our audit. No circumstances arose that indicated we would need to reconsider this judgement.</p> <p>Findings</p> <p>There are no issues to bring to your attention.</p>
<p>2 Management over-ride of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management over-ride of controls as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> – evaluated the design effectiveness of management controls over journals; – analysed the journals listing and determined the criteria for selecting high risk unusual journals; – tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; – gained an understanding of accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence; and – evaluated the rationale for any significant changes in accounting policies, estimates or significant unusual transactions. <p>Findings</p> <p>Our audit work to date has not identified any issues in respect of management override of controls. We are currently working through the journals selected for testing, we will provide a verbal update to the Corporate Governance and Audit Committee on 26 July with our final findings on our review of journals.</p>

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>3 Valuation of land and buildings (rolling revaluation) including the Council's 13 PFI schemes in the first year of audit</p> <p>The Council revalues 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 (over £5 billion) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation experts discussed with the valuers the basis on which the valuation was carried out challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding tested revaluations made during the year to see if they had been input correctly into the Council's asset register considered how management has confirmed assets valued at 30 September 2018 have not significantly changed in value by the year end, 31 March 2019 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 [this work remains ongoing] reviewed the Council's 13 PFI schemes to consider the appropriateness of the accounting entries.
	<p>Findings</p> <p>Our audit work to date has not identified any issues except for:</p> <ul style="list-style-type: none"> the Council has processed six adjustments following receipt of additional valuation information to the carrying value of fixed assets in the draft financial statements. We are currently reviewing these adjustments: <ul style="list-style-type: none"> Harper Street Car Park: Valuation revised from £7,755,932.20 to £12,500,000 Apex View: Valuation revised from £8,694,017 to £8,200,000 Swinegate Car Park: Valuation revised from £20,884,120 to £22,350,000 Paradigm Building: Valuation revised from £10,733,433 to £10,200,000 Windmill Primary School: Valuation revised from £5,140,000 to £5,167,000 Waste PFI: Valuation revised from £119,554,900 to £120,867,000.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>4 Valuation of the pension fund net liability</p> <p>The pension fund net liability, as reflected in the Council's balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls (refer also to our detailed review of estimation process in key judgements and estimates section on page 12) • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary PwC (as auditor's expert) and performing additional procedures suggested within the report. This has included: <ul style="list-style-type: none"> – review of the scope of the actuary's work; – review of the source data provided to the actuary to confirm its validity and completeness; – performed checks on accounting policy disclosures in relation to IAS 19; – reviewed the duration of liabilities of the Council to ensure assumptions used are appropriate to the asset and liability profile of the authority; – reviewed if there are any departures from the actuary's recommended assumptions; and – performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over roll-forward valuation • obtained assurances from the auditor of the West Yorkshire pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and fund assets valuation in the pension fund financial statements (we are currently awaiting this information). <p>Findings</p> <p>Our audit work to date has not identified any issues. Our audit work confirmed that the Council used the figures for its pension fund net liability of £1,492m, issued by its actuary in April 2019. The figures provided by the actuary were based on asset valuations as at 31 March 2019.</p> <p>At the time of producing this report, we have been in discussions with management and we are aware that the Council has requested updated reports from its actuary to take into account the impact on the Council's pension numbers of the McCloud judgement and GMP. We understand the expected impact of these issues would result in a suggested increase of the Authority's £1.5bn pension fund liability by £47.4m, which is above the materiality figure.</p> <p>We are currently reviewing the updated actuary's report and resulting changes to the pension figures in the accounts. We will verbally update the Committee on 26 July with our findings on this issue.</p>

Significant findings - other issues

Issue	Commentary	Auditor view
<p>Potential impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £37.97m, and an increase to the Guaranteed Minimum Pension (GMP) indexation of £9.43m.</p> <p>Management's view is that the impact of this change is material. The Council has now received the updated IAS19 Report from AON and is incorporating the changes into the 2018-19 financial statements.</p>	<p>We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>Given the change in liability resulting from the McCloud judgement and GMP indexation, management has agreed to process the adjustments of £47.4m based on the updated IAS19 report. We consider this an appropriate adjustment to the Council's financial statements.</p> <p>We have included this as a post balance sheet adjusted item at Appendix B.</p>

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NDR appeals - £20.8m	<p>The Council is responsible for repaying a proportion of successful rateable value appeals. Management calculates the level of provision required and is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.</p> <p>There has been an increase in the provision of £14.6m during the year as a result of a general increase in the collection fund provision and the impact of the Council now being part of the 100% retention business rates pilot scheme.</p>	<ul style="list-style-type: none"> the underlying information used to determine the estimate appears appropriate the calculation of the NDR provision is appropriate – our work remains on-going in this area an appropriate accounting policy is included in Note 4 of the Statement of Accounts. 	 Green
Land and Buildings – Council Housing - £2,100m	<p>The Council is required to revalue its Council housing in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties.</p> <p>The Council has engaged its in-house valuer to complete the valuation of these properties. The valuation was at 30 September 2018 and valued Council Housing at £2,100m, a net increase of £38.9m from 2017-18 (£2,061m).</p>	<ul style="list-style-type: none"> The Council's in-house valuer has valued the Council's housing stock on 30 September 2018 using the beacon methodology. Whilst the valuer has confirmed that there has been no material change in beacon values from 30 September 2018 to 31 March 2019, we have requested additional information from the Valuer to support this assertion which is still awaited Our work has confirmed the Council has correctly applied the social housing adjustment factor of 41% We have assessed the Council's in-house valuer to be competent, capable and objective 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 The valuation method remains consistent with the prior year other than the change in valuation date to 30 September 2018 We have agreed the HRA valuation report to the Statement of Accounts Whilst recognising the progress the Council has made in moving its valuation date from 1 April 2018 to 30 September 2018, we consider it appropriate the valuation date should be at the year end (31 March) each year as previously discussed with management on the basis that a year-end valuation provides a more accurate position. We have raised a recommendation in this respect in the Action Plan at Appendix A. 	 Green

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (red)
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (amber)
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious (green)

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £2,248m	<p>Other land and buildings comprises £1,656m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.</p> <p>The remainder of other land and buildings (£592m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its in-house valuer to complete the valuation of properties as at 30 September 2018 on a five yearly cyclical basis. Overall, 65% of total land and buildings assets were revalued during 2018-19.</p> <p>Management has considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 30 September 2018, based on the market review provided by the valuer as at 31 March 2019, to determine whether there has been a material change in the total value of these properties.</p> <p>Management's assessment of assets not revalued has identified no material change to the properties value except for six late valuation changes totalling £ 6.5m (see further details alongside).</p>	<ul style="list-style-type: none"> We have assessed the Council's in-house valuer, to be competent, capable and objective 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 The valuation method remains consistent with the prior year The Council's in-house valuer valued other land and buildings at 30 September 2018. The valuer has confirmed that there has been no material change in asset values from 30 September 2018 to 31 March 2019, we have requested additional information from the Valuer to support this assertion which is still awaited We have agreed the Valuation report to the Fixed Asset Register and to the Statement of Accounts. <p>Our audit work identified no issues except for:</p> <ul style="list-style-type: none"> the Council has processed six adjustments following receipt of additional valuation information to the carrying value of fixed assets in the draft financial statements. We are currently reviewing these adjustments: <ul style="list-style-type: none"> Harper Street Car Park: Valuation revised from £7,755,932 to £12,500,000 Apex View: Valuation revised from £8,694,017 to £8,200,000 Swinegate Car Park: Valuation revised from £20,884,120 to £22,350,000 Paradigm Building: Valuation revised from £10,733,433 to £10,200,000 Windmill Primary School: Valuation revised from £5,140,000 to £5,167,000 Waste PFI: Valuation revised from £119,554,900 to £120,867,000. whilst recognising the progress the Council has made in moving its valuation date from 1 April 2018 to 30 September 2018, we consider it appropriate the valuation date should be at the year end, 31 March each year as previously discussed with management. We have raised a recommendation in this respect. 	 Green

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment																						
Net pension liability – £1,492m (includes Teachers discretionary pensions £84m)	<p>The Council's net pension liability at 31 March 2019 is £1,492m (as per the draft accounts) (PY £1,278m) comprising the Council's element of the West Yorkshire Pension Fund (WYPF).</p> <p>The Council uses 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 in 2016-17.</p> <p>A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £214m net actuarial loss during 2018-19 (as per the draft accounts).</p>	<p>As part of our audit, we performed the following procedures to ensure the estimates used and key judgements applied when valuing the Council's pension liability were prudent and reasonable:</p> <ul style="list-style-type: none"> We have assessed the Council's actuary, AON, to be competent, capable and objective We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2018-19 roll forward calculation carried out by the actuary and have no issues to raise We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions: 	 Green																						
		<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC comments</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.40% - 2.5%</td> <td>The methodology is reasonable and results in assumptions within, albeit towards the top, more optimistic end, of the expected ranges at 31 March 2019 for all employers.</td> <td style="text-align: center;">  Green </td> </tr> <tr> <td>Pension increase rate</td> <td>2.20% - 2.10%</td> <td>Assumption appears reasonable and methodology appropriate.</td> <td style="text-align: center;">  Green </td> </tr> <tr> <td>Salary growth</td> <td>3.45%</td> <td>Lies within the 3.1% to 4.35% range.</td> <td style="text-align: center;">  Green </td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>Pensioners: 22.2 Non-pensioners: 23.2</td> <td>Overall mortality assumptions appear reasonable.</td> <td style="text-align: center;">  Green </td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>Pensioners: 25.4 Non-pensioners: 27.2</td> <td>Overall mortality assumptions appear reasonable.</td> <td style="text-align: center;">  Green </td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC comments	Assessment	Discount rate	2.40% - 2.5%	The methodology is reasonable and results in assumptions within, albeit towards the top, more optimistic end, of the expected ranges at 31 March 2019 for all employers.	 Green	Pension increase rate	2.20% - 2.10%	Assumption appears reasonable and methodology appropriate.	 Green	Salary growth	3.45%	Lies within the 3.1% to 4.35% range.	 Green	Life expectancy – Males currently aged 45 / 65	Pensioners: 22.2 Non-pensioners: 23.2	Overall mortality assumptions appear reasonable.	 Green	Life expectancy – Females currently aged 45 / 65	Pensioners: 25.4 Non-pensioners: 27.2	Overall mortality assumptions appear reasonable.
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Significant findings – Going concern

Going concern commentary

Management's assessment process

Management has an established process in place and prepare a detailed budget each year which is approved by Members. The budget is developed based on a number of assumptions including funding from Government, cost improvement programmes required to be delivered and the pressures facing the Council.

To ensure effective management, the budget is broken down by service area and routinely monitored on a monthly basis with performance reported to Executive Board. Cash flow is also routinely monitored as part of the Council's treasury management arrangements.

The Council has in place a three year Medium Term Financial Strategy (MTFS) to 2021-22 to allow it to effectively plan its finances ahead and ensure it is able to effectively manage its financial position. We understand a five year MTFS up to 2024/25 is expected to be agreed by the end of July 2019.

In assessing its going concern position, management look ahead twelve months from its reporting date and have regard to its future cash flow position including whether current spending is in accordance with budget.

Auditor commentary

- Following its review of going concern, management has concluded it remains a going concern and it is appropriate to continue to prepare its accounts on a going concern basis
- The Council has delivered savings during the year of some £28.8m compared to a savings target of £34m and has managed the financial pressures faced to ensure expenditure remains within the approved budget. The Council delivered an underspend of £3m for 2018-19 and increased general fund balances at the year end by £2.3m
- We have considered management's assessment of going concern as a basis for compiling the financial statements. The arrangements management has in place appear appropriate
- The budget setting processes used to prepare the annual budget and the monitoring arrangements in place are considered appropriate and adequate
- The Council has set a balanced budget for 2019/20 after the contribution of £3.5m to General Fund Reserves. To achieve this balanced position, the Council needs to deliver £22.6m of savings during the year which management consider are achievable
- The Chief Finance Officer routinely monitors the Council's financial position and reports regularly to Members.

Work performed

We considered management's going concern assessment including the assumptions used.

- Our work confirmed the management's arrangements for assessing going concern are adequate and management's use of the going concern basis of preparation is reasonable.
- We have not identified any material uncertainties that may cast significant doubt on the Council's ability to continue as a going concern for the foreseeable future.

Concluding comments

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We are satisfied with management's assessment that the going concern basis is appropriate for the 2018-19 financial statements.

Other communication requirements

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

Issue	Commentary
① Matters in relation to fraud	We have discussed the risk of fraud with the Chief Financial Officer and have also written to the Chair of the Corporate Governance and Audit Committee. We have also discussed the risk of fraud with the Head of Internal Audit and noted Internal Audit updates to the Corporate Governance and Audit Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	On the basis of our work to date, we are not aware of any related parties or related party transactions which have not been disclosed.
③ 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.
④ Written representations	A letter of representation has been requested from the Council which is included in the Corporate Governance and Audit Committee papers.
⑤ Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banks. This permission was granted and we wrote directly requesting confirmation of balances, all bank confirmations have now been received. We also requested permission to send direct confirmations for investments held by the Council, these were issued earlier in the year and all have now been received. We also requested loan confirmations of which a number remain outstanding. We will continue to follow these up during completion of the audit.
⑥ Disclosures	Our review found no material omissions in the financial statements. We have identified some disclosure amendments to assist in the understanding of the financial statements. These are included at Appendix B.
⑦ Audit evidence and explanations / significant difficulties	All information and explanations requested from management was provided. We did not identify any significant difficulties with management or working papers during the course of our audit.

Other responsibilities under the Code

Issue	Commentary
<p>1 Other information</p>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified 'clean' opinion in this respect as detailed at Appendix D.</p>
<p>2 Matters on which we report by exception</p>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit; and/or • If we have applied any of our statutory powers or duties. <p>We have nothing to report on these matters.</p>
<p>3 Specified procedures for Whole of Government Accounts</p>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>The deadline for the WGA consolidation audit is 31 August 2019 and we plan to complete our audit work and report by the deadline.</p>
<p>4 Certification of the closure of the audit</p>	<p>As a result of the ongoing WGA work, we do not expect to be able to certify the completion of the 2018-19 audit of the Council in our auditor's report, as detailed in Appendix D. This is in common with a number of local authorities (and what occurred at the Council in 2017-18), where certification on closure of the audit takes place following completion of the WGA review in August.</p>

3. Value for Money

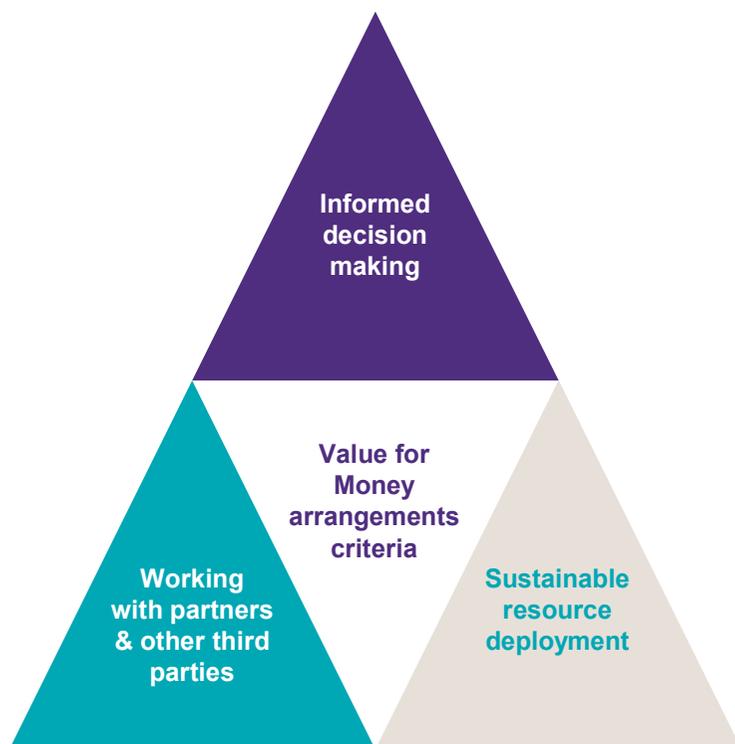
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in December 2018 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan in January 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Financial standing - Leeds City Council as other authorities, continues to operate under significant financial pressures
- Brexit - the UK was due to leave the European Union on 29 March 2019 (now 31 October 2019). This will have national and local implications that will impact on the Council.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 18 to 20.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix D.

Recommendations for improvement

We discussed the findings arising from our work with management and have agreed one recommendation for the Council to consider the adequacy of its future level of reserves.

Our recommendation and management's response to this can be found in the Action Plan at Appendix A.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

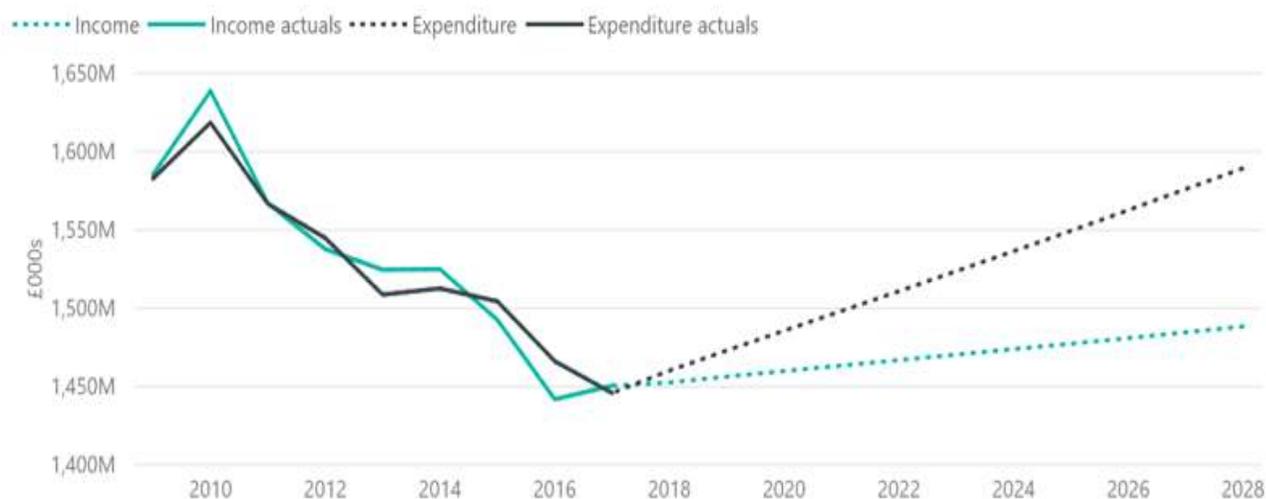
Significant risk from the Audit Plan	Findings	Conclusion
<p>1 Financial standing</p> <ul style="list-style-type: none"> Leeds City Council as other authorities, continues to operate under significant financial pressures. For 2018-19, the Council planned to deliver a balanced outturn position but to achieve this, needed to deliver savings of some £34m whilst managing cost pressures within Children’s Services and Adult Social Care at a time of reduced funding For 2019-20, the initial budget proposals presented to Executive Board (December 2018) indicated a Council Tax increase of 2.99% and a further 1.0% for Adult Social Care, with in year savings required of some £24.4m We have continued to monitor the Council’s financial position through regular meetings with senior management and considered how the Council manages overspends within both Children’s and Adult Social Services. We have considered the delivery of the £34m savings required and plans in place to identify cost improvements into 2019-20. 	<ul style="list-style-type: none"> The Council delivered an outturn underspend in 2018-19 of £3.0m (General Fund) compared to a budgeted balanced position for the year. Whilst there were some overspends in directorates including Children and Families (£2.4m) and City Development (£1.9m), the main area of underspend was in the Strategic Directorate at £7.5m (mainly as a result funding capital expenditure on PFI costs from borrowing rather than the use of grants). The Adults and Health Directorate achieved a balanced position at the year end after the receipt of additional Government funding of £3.3m for winter pressures Actual savings delivered by directorates totalled some £28.8m compared to a savings target of £34m for 2018-19 (an achievement rate of 85%). After the creation of a number of new reserves valued at £3.1m, the Council contributed £2.3m to the General Fund Reserve at the year end increasing the General Fund Reserve from £25.7m at 1 April 2018 to £28m at 31 March 2019. This increase supports the Council’s strategy to increase reserves to strengthen its financial resilience The Housing Revenue Account also delivered an outturn underspend of £1.1m for 2018-19 mainly due to savings on employee costs of £2.1m which were offset by overspends on repairs and maintenance of some £1.0m Capital spend during the year totalled £271m (General Fund) compared to a budget of £263m. The main increase related to the acquisition of the Swingate Multi Storey Car Park which was added after the original capital programme was set The Council approved the 2019-20 budget in February 2019, Council Tax for 2019-20 was increased by 2.99% plus an additional 1% for the Adult Social Care precept, a total increase of 3.99% on net revenue expenditure of £516.7m. The Council Tax increase generates an additional £15.1m of local funding during the year. In addition, the Council resolved to contribute £4.5m to the Council’s general reserves during 2019-20. To deliver the budget in 2019-20, the Council needs to deliver £22.6m of savings by March 2020. We will be monitoring the Council’s progress against this target as part of our 2019-20 audit planning. 	<p>The Council continues to operate under significant financial pressures, however, it has effective arrangements in place to routinely monitor its budget and take appropriate action to mitigate against any significant variances or additional calls on resources. This has helped deliver an underspend of £3m for 2018-19.</p> <p>Whilst the Council has a challenging savings target for 2019-20 of £22.6m, it has a record of delivering the overall budget and considers the savings achievable.</p> <p>Our look at the Council’s financial position using our Insights and Analytics team indicates the Council has continued to maintain reserves at around 5% of net revenue expenditure. However, looking ahead to future projections based on current spending patterns and expected income, the level of reserves are projected to reduce.</p> <p>As such, there is a need for the Council to consider the adequacy of its reserves going forward. We have raised a recommendation on this matter in the Action Plan at Appendix A.</p> <p>Overall, we concluded that the Council has proper arrangements in place for ensuring sustainable resource deployment.</p>

Key findings

Financial standing continued

- We asked our Insights and Analytics team to run a Financial Foresight report for the Council based on publicly available information. The analysis undertaken is based on the Council's past level of income and expenditure patterns and projects this into the future and the resulting impact this would have on the Council's level of reserves assuming these factors remain constant.
- This analysis indicates that whilst expenditure and income have reduced over the last seven years, the Council's level of reserves have remained at around 5% of net revenue expenditure. However, using the model, and looking ahead to future projections based on current levels of income and spending patterns, the level of reserves are projected to fall unless expenditure is reduced or income increased.
- We recognise that the decisions made by the Council to its MTFs and its financial position are regularly reviewed to recognise changes impacting on demand for Council services. In addition, we are aware that the Council will also consider and review its financial plans in light of the Government's spending review, fair funding review and other pressures and the risks facing the Council. The decisions made by the Council in-light of these national and local factors can collectively impact on the outcome of future projections.

Historic income and expenditure (2009/10 - 2017/18) and future baseline projection.



Key findings

Significant risk from the Audit Plan	Findings	Conclusion
<p>2 Brexit</p> <p>The UK was due to leave the European Union on 29 March 2019 (now 31 October 2019). There will be national and local implications resulting from Brexit that will impact on the Council, which the Council will need to plan for.</p> <p>We considered the Council’s arrangements and plans to mitigate any risks on Brexit. We also considered areas such as workforce planning, supply chain analysis, regulatory risk and the impact on finances including investment and borrowing as well as any potential impact on the valuation of the Council’s assets.</p>	<ul style="list-style-type: none"> • The UK was initially expected to leave the European Union on 29 March 2019, this was then extended to 12 April 2019, after which EU leaders agreed a further extension to 31 October 2019. • Following the result of the June 2016 referendum, the Council’s Executive Board considered a report in July 2016 and approved five main areas that the Council and its partners would focus on in the run-up to Brexit: <ol style="list-style-type: none"> 1. Maintaining momentum on major development and infrastructure schemes, and economic growth projects 2. Supporting business and key institutions 3. Creating a more tolerant and united city 4. Securing devolution 5. Providing confident, outward-looking leadership and image of Leeds as an international city. • The Council’s Chief Executive is the regional lead for Brexit preparations in Yorkshire and Humberside • The majority of the Council’s work to prepare for Brexit has been undertaken as part of normal business arrangements at the Council. However, co-ordination of activity has been undertaken by a team based within the Chief Executive’s Office and through the Brexit Officer Working Group. Regular reports have also been presented to the Executive Board. There is also recognition that should an emergency situation arise, Council officers may need to be temporarily redeployed as part of response and recovery arrangements. The Council received £210k from the Ministry of Housing Communities and Local Government (MHCLG) for Brexit preparedness. • The Council has developed a strategic response plan to provide a framework to deal with the uncertainty in the build up to and the response phase after the UK’s exit. The plan is structured around five key themes: 1. Infrastructure and supplies; 2. Business and economic impact; 3. Community; 4. Media and communications and; 5. Organisational impact. The response plan is able to be scaled up or down depending on the nature of the UK’s final exit from the EU. • The response plan draws on local consultation and national best practice, and recognises the dynamic nature of the Brexit landscape. Existing groups and networks in the city will continue to be utilised to minimise the creation of new bureaucracy. 	<p>The Council has continued to monitor Brexit developments following the referendum in June 2016 and has continued to liaise with other neighbouring authorities and national and local agencies to ensure a co-ordinated approach to the EU exit process.</p> <p>Given the date of Brexit has now been extended to 31 October 2019, the Council continues to monitor developments and liaise with its partners to ensure it remains prepared for Brexit.</p> <p>The Council has in place a response plan and recognises Brexit may impact on local businesses. It also remains prepared to implement the plan when required and will redeploy staff if required in the short term.</p> <p>Overall, we concluded the Council has proper arrangements in place to plan for Brexit and can demonstrate appropriate working with partners.</p>

4. 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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed at Appendix C.

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 non-audit services were identified.

Service	Fees £	Threats identified	Safeguards
Audit related:			
None	-		
Non-audit related:			
CFO Insights	£17,500	Self-Interest (because this is a recurring fee)	<p>This is an online software services that enable users to rapidly analyse data sets. CFO Insights is a Grant Thornton & CIPFA collaboration giving instant access to financial performance, service outcomes and socio-economic indicators for local authorities.</p> <p>It is the responsibility of management to interpret the information. The scope of our service does not include making decisions on behalf of management or recommending or suggesting a particular course of action. These factors mitigate the perceived self-interest threat. The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £17,500 in comparison to the total fee for the audit of £178,604 and in particular relative to Grant Thornton UK LLP's turnover overall. These factors all mitigate the perceived self-interest threat to an acceptable level.</p>

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Annual Audit Letter in August 2019.

None of the services provided above are subject to contingent fees.

A summary of our previous engagements with the Council are provided overleaf on page 22. These relate to services delivered in 2017-18 prior to our appointment as external auditors to the Council on 1 April 2018.

Independence and ethics

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. In the table below we have set out the previous services we have provided to the Council prior to our appointment as auditor on 1 April 2018.

Service	Date of service	Fees £	Would the service have been prohibited if we had been auditor?	Commentary
Review of joint venture property transaction – Merrion House	December 2017	20,263	Yes	Review of proposed property transaction, including a review of PWLB reference rates. No threats identified.
Advice in connection with the redevelopment of the North/South stand at Headingley Stadium	June 2017	125,040	Yes	Self review and management threat considered immaterial to both the accounts and VFM work. The work mainly provided a review of funding arrangements and commentary on areas of concern, operational business plans and associated financial modelling, and credit ratings.
Financial advice on the delivery of a Telecommunications Network Services contract	September 2017	18,019	Yes	Self review and management threat considered immaterial to both the accounts and VFM work. The work only provided a review of alternative delivery options and no advice.

We do not believe that the previous services detailed above will impact our independence as auditors.

This information has previously been reported to those charged with governance in our Audit Plan dated 7 January 2019.

Appendix A: Action Plan

We have identified the following recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019-20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
1  Amber	<p>Valuation of land and buildings:</p> <p>The Council has moved its valuation date from 1 April to 30 September in 2018-19. This then requires an estimation at the year end to ensure there has not been a material change in asset values.</p> <p>There is a risk that asset values are not correctly valued in the financial statements.</p>	<p>In order to further strengthen arrangements in relation to valuation of the Council's assets, management should revise its valuation date for the valuation of fixed assets from the current 30 September date, to the year end, 31 March each year.</p> <p>Management Response</p> <p>The Council's policy of using a valuation date of 30th September has been established in order to ensure that it is possible to produce the required number of valuations based on observable data of conditions as at the valuation date. The Council has reviewed whether a material change in valuations has taken place between 30th September and 31st March.</p>
2  Amber	<p>Future level of useable reserves:</p> <p>The Council has maintained the level of its reserves at around 5% of total net revenue expenditure. However, looking ahead to future projections based on current spending patterns, the level of reserves are projected to reduce.</p> <p>There is a need for the Council to consider the adequacy of its reserves.</p>	<p>The decisions made by the Council to its spending commitments and longer term MTFs can impact on the outcome of future projections. In the context of historic projected spending trends and the potential impact this could have on the level of useable reserves, the Council should consider the adequacy of its reserves going forward and the appropriate level of balances which should be linked to the approved MTFs and which should also be reviewed each year.</p> <p>Management Response</p> <p>In the context of both the financial projections and financial risks reflected in the Council's current Medium Term Financial Strategy, the Council will annually review its strategy to ensure that it retains an appropriate level of balances within its general reserve.</p>

Controls

-  High priority – Significant effect on control system (red)
-  Medium priority – Effect on control system (amber)
-  Low priority – Best practice (green)

Appendix B: 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.

1. 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 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on the Council's useable reserves
National Post Balance Sheet identified adjustment:			
1 Potential impact of the McCloud judgement	47,403	(47,403)	There is no impact on the Council's useable reserves arising from this adjustment.
The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented.	Additional past service costs (47,403)	Increase in pension liability (47,403)	
The Council has received an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate is a possible increase in pension liabilities of £37.97m, and an increase to the Guaranteed Minimum Pension indexation of £9.43m.	Reversal statutory adjustment	Increase in pension reserve	
Leeds City Council identified adjustments:			
1 Management identified six assets (comprising PPE and Investment properties) and has processed six adjustments following receipt of additional valuation information to the carrying value of fixed assets in the draft financial statements. We are currently reviewing these adjustments.	(2,963) Provision of services 2,963 Reversal statutory adjustment (3,559) Revaluation of fixed assets 3,559 Capital Account balances	2,963 Capital adjustment account 3,559 Revaluation Reserve 7,550 PPE (1,028) Investment assets	There is no impact on the Council's useable reserves arising from this adjustment.
2 The Council has revised its NNDR Appeals Provision following the receipt of additional information.	3,305 Increase in Provision 3,305 Reversal statutory adjustment	(3,305) Increase in Provision (3,305) Collection Fund Adjustment Account	
TOTAL	Nil	Nil	No impact on the Council's useable reserves.

Audit Adjustments

2. Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Updated in the revised accounts?
Audit Fee – Note 10.5	<p>The original Audit Fee note included reference to certification of grant claims and returns which are no longer mandated fees with the work not being undertaken by Grant Thornton, the Council's auditor and should be excluded for 2018-19.</p> <p>Fees for additional services contracted with Grant Thornton (CFO Insights) should be disclosed as other services.</p>	<p>Fees for certification of grant claims and returns should be excluded from this note as not undertaken by Grant Thornton, the Council's auditor from 2018-19.</p> <p>Fees for additional services contracted with Grant Thornton (CFO Insights) should be disclosed as other services.</p>	✓
Members Allowances Note	<p>There is currently no disclosure note of Members allowances paid during the year. Whilst not material in monetary terms, we consider this disclosure material by nature given its sensitive nature.</p>	<p>A Members allowances note should be added disclosing payments made during 2018-19 and a comparative for 2017-18.</p>	✓
Nature and extent of grant	<p>The nature and extent of grants and contributions should be disclosed. We note that Management has included the DSG and benefit subsidy as material grants, however the Pupil Premium Grant and Public Health Grant are also material and should be disclosed.</p>	<p>The nature and extent of all material grants should be disclosed within the financial statements.</p>	✓
Housing Revenue Account	<p>There is a requirement for the disclosure of the number of dwellings held in the housing stock as well as the amount of rent arrears in respect of uncollectable debts.</p>	<p>The Housing Revenue Account should disclose the total housing stock as well as the amount of rent arrears.</p>	✓
Subsidiary and associate entities	<p>The financial statements do not currently include a policy to explain how the associate and subsidiary interests are accounted for in the Council's accounts.</p>	<p>The financial statements should include a policy to explain how the associate and subsidiary interests are accounted for in the Council's single entity accounts.</p>	✓
Various	<p>Our cold review of the Council's 2017/18 accounts identified a number of improvement opportunities to the financial statement disclosures.</p>	<p>We have recommended management consider making the proposed changes.</p>	Under discussion

Audit Adjustments

3. Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 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 total net expenditure £'000	Reason for not adjusting
1 NONE	-	-	-	-
Overall impact	-	-	-	-

Our audit work to date has not identified any unadjusted misstatements.

Appendix C: Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees

	Proposed fee	Final fee	2017-18 fee (to predecessor auditor)
Council Audit	£178,604	£TBC*	£231,953
Total audit fees (excluding VAT)	£178,604	£TBC*	£231,953

* In light of the additional audit work to be performed on the Pension balances and entries in the Council's accounts (as a result of the McCloud judgement and GMP), and the additional audit testing performed on the Council's land and buildings following increased requirements for audit work in these areas, we will be proposing an additional fee in 2018-19. The additional fee is expected to be in the region of c£5,000. We will provide an update on this in our Annual Audit Letter, due to be agreed with management in August and presented to the Corporate Governance and Audit Committee in November 2019. Final approval of any additional audit fee will be by Public Sector Audit Appointments Ltd (PSAA).

Non Audit Fees

Fees for other services	Fees £
Audit related services:	
• None	-
Non-Audit related services:	
• CFO Insights	17,500
TOTAL:	17,500

Appendix D: Audit opinion (proposed)

We anticipate we will provide the Council with an unqualified 'clean' audit report by 31 July 2019

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Leeds City Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account Reserve, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. 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 2018-19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of 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 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 the 'Delivering Good Governance in Local Government: Framework (2016)' 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.

Audit opinion

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

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

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

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

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

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

Audit opinion

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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 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 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Use of our report

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

[Signature]

Gareth Mills, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Leeds

xx July 2019



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