Grant Thornton

The Audit Findings (ISA260) Report for Leeds City Council

Year ended 31 March 2020

12 November 2020

DRAFT FOR CIRCULATION
CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Contents

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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 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council from March 2020. Given the impact of the pandemic only started from mid-March, additional costs have not had a major impact on the financial outturn for 2019-20, however, the scale of impact is being felt during 2020-21 and 2021-22. There have been significant financial challenges as the Council responded to the COVID-19 pandemic through additional costs to support operational services, lost income through reduced trading activity and some cessation of services. In addition, council tax payments and business rates payments reduced as lock down started, businesses closed, and businesses furloughed staff. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 21 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VFM approach. Further detail is set out on page 6. Restrictions for non-essential travel has meant both Council and audit staff have had to work remotely, including remotely accessing working papers and financial systems. In addition, meetings have been replaced by telephone and video conferencing arrangements which has also been extended to Council Committee meetings including the Corporate Governance and Audit Committee. This remote working on both sides, combined with the increased level of audit testing performed and audit evidence required (particularly in respect of the significant risk areas of PPE and pensions) resulted in the audit fieldwork taking longer than planned. Given some element of remote/home working is likely to still be in place for 2020-21, we will be discussing with the finance team how we can continue to work together to mitigate these issues next year. We were provided with the Council's draft 2019-20 statement of accounts on 6 July 2020, ahead of the revised 31 August 2020 deadline.
Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements: • give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed remotely during July to November 2020. Our findings are summarised on the following pages. We have identified the following adjustments to the financial statements: • Pension Fund Liability - an increase in the Council's pension fund liabilities of £9.73m resulting from the impact of the Goodwin judgement • Classification - £60m of Short Term Investments to correctly be classified as Cash Equivalents • Grants Receipts in Advance – currently included in Creditors but should properly be disclosed separately as Grant Receipts in Advance (£XXm) • Merrion House - We are currently considering with Officers whether a Prior Period Adjustment (PPA) is required for the proposed change in treatment of the receipt of 50% of the advance rental prepayment as a distribution, and the accounting treatment for reducing the fair value of the Council's holding in the LLP in the 2019-20 accounts. The Council is proposing that the balance of £25.65m shown as deferred income in its draft accounts would be recognised as revenue income and transferred to an earmarked reserve, to be applied during the remaining life of the lease. Except for Merrion House, none of the above adjustments impact on the Council's Useable Reserves position. Further details of the audit adjustments are detailed on pages 5 to 12 and at Appendix C. We have also raised recommendations for management as a result of our audit work at Appendix A. Our follow up of recommendations from the prior year's audit are detailed at Appendix B.

Financial Statements continued		Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters: • completing our work on financial instruments, employee remuneration, PPE, MRP, Pension fund assets and liabilities, PFI schemes, REFCUS, Leases, Accounts disclosures, agreeing the draft accounts to the FMS system, grants testing, Merrion House accounting treatment and long term debtors • receiving the Council's going concern assessment and our review thereof • the finance team clearing any additional responses to the technical 'Hot Review' of the 2019-20 accounts. We can only conclude our audit once we have satisfactory responses to this review • assurance from the West Yorkshire Pension Fund auditor on the 2019-20 Pension Fund accounts. Until received, currently expected during November 2020, we will be unable to complete our audit work and issue our audit opinion. Where the pension fund auditor's report refers to a material uncertainty relating to Covid-19, we will need to consider the impact on the Council's accounts and our audit report • completion of our internal quality review processes, including final reviews of the file by both the senior manager and engagement lead, specifically in respect of significant audit risks of PPE revaluations and the Pension Fund liability • procedures for Whole of Government Accounts • reviewing the final version of the financial statements • obtaining and reviewing the management letter of representation • updating our post balance sheet events review, to the date of signing the opinion. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. Our anticipated audit report opinion will be {TO BE CONFIRMED} unqualified with an Emphasis of Matter paragraph, relating to the material uncertainty around the valuation of land and buildings and investment properties as a direct impact of Covid-19. This is due to the Council's valuers reporting a material uncertainty in their valuation reports and also being reported in the Council's financial statements. This is a consistent finding across our local authority audits.
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 updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. The VFM risks identified at the planning stage of our audit were the Council's Financial Standing and preparations for Brexit. We have not identified any new VFM risks in relation to Covid-19. Our risk based review of the Council's value for money arrangements is complete in respect of preparations for Brexit, but remains on-going in respect of its arrangements relating to financial standing. The Council went into the Covid-19 pandemic with low reserves as noted in our Audit Findings Report last year. We understand that in previous years, the Council made informed decisions regarding the level of balances and reserves as part of a strategy to protect the provision of front line services. Following our recommendation on the level of reserves last year, the Council recognised the need to increase General Fund reserves. These have increased from £28m at 31 March 2019 to £31.5m at 31 March 2020, whilst earmarked General Fund reserves have increased from £63.1m to £77.5m during the same period. However, Covid-19 took hold in March 2020 significantly impacting on the Council's financial position.

Value for Money arrangements **continued**		At that time, the Council took a range of actions to mitigate the financial impact of Covid-19, and believed it had sufficient time to manage the additional financial pressures resulting from Covid-19 in 2021-22, however, it considered it may not be able to absorb the additional costs relating to 2020-21, and in May 2020, requested additional support from the Ministry of Housing Communities and Local Government (MHCLG) and Treasury. We understand from management that the request for a capitalisation order was an informed decision taken by the Council to allow it to manage the situation over a longer period, rather than having to make short term decisions. Since this time, the Council has been taking steps to reduce the budget gap resulting from Covid-19 through a range of measures, and by November 2020, had reduced the gap to £30.5m (from £95.1m). At this point, the Council felt it was able to manage the remaining additional costs for 2020/21 and withdrew its application for a capitalisation order on 12 November 2020. Overall, if Covid-19 had not taken place, the Council's financial position would have continued to be sufficiently stable to manage the financial impact of small unforeseen events as in previous years, however, the financial impact of Covid-19 has been significant and highlights the inadequacy of the Council's General Fund Reserves and balances to cushion the impact of major events, requiring the Council to take a range of unplanned and short term measures to manage the additional costs. This situation indicates weaknesses in the level of General Fund Reserves to deal with significant unforeseen circumstances resulting from the Council's arrangements for financial management. Except for this matter, the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing a qualified 'except for' value for money conclusion {TO BE CONFIRMED}, as detailed at Appendix E. Our findings are summarised on pages 20 to 28. It is important to note that we have agreed a number of recommendations with management relating to the delivery of a balanced outturn position for 2020/21, and an achievable and realistic budget for 2021/22 which can be delivered. Additionally, we have agreed to meet on a monthly basis with the Council's Chief Finance Officer to consider the actions being planned, taken and delivered to achieve savings in both 2020/21 and 2021/22 and to monitor the Council's financial position for both years. Any deterioration in the Council's financial position for 2020/21 or planned position for 2021/22, could lead us to consider exercising our additional statutory powers under Part 5, Section 24, Schedule 7 (Paragraph 2) of the Local Audit and Accountability Act 2014 in respect of written recommendations.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of our work under the Code but will not be able to issue our completion certificate until we have completed our work on the Whole of Government consolidation pack. This is in common with the prior year and across our larger local authority audits. We expect to perform the WGA review in December.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

2. Financial statements - Audit approach

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; and
- 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 had to alter our Audit Plan, as communicated to you on 21 April 2020, to reflect our response to the Covid-19 pandemic.

Conclusion

We have substantially completed our audit of your financial statements and subject to the outstanding queries being resolved, we anticipate issuing {TO BE CONFIRMED} an unqualified audit opinion including an Emphasis of Matter paragraph, relating to the material uncertainty around the valuation of land and buildings and investment properties as a direct impact of Covid-19, as detailed at Appendix E. These outstanding items include:

- completing our work on financial instruments, employee remuneration, PPE, MRP, Pension fund assets and liabilities, PFI schemes, REFCUS, Leases, Accounts disclosures, agreeing the draft accounts to the FMS system, grants testing, the Council's going concern assessment, Merrion House accounting treatment and long term debtors
- receiving the Council's going concern assessment and our review thereof
- the finance team clearing any additional responses to the technical 'Hot Review' of the 2019-20 accounts. We can only conclude our audit once we have satisfactory responses to this review
- assurance from the West Yorkshire Pension Fund auditor on the 2019-20 Pension Fund accounts
- procedures for Whole of Government Accounts
- reviewing the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.

Our approach to materiality

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

Materiality levels remain the same as reported in our Audit Plan and Audit Plan Addendum.

Materiality area	Council Amount (£)	Qualitative factors considered:
Materiality for the financial statements	26,852k	Materiality has been based on 1.3% of the Authority's gross expenditure
Performance materiality	18,796k	Our performance materiality has been set at 70% of our overall materiality
Trivial matters	1,074k	This is set at 4% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties.
Materiality for specific transactions, balances or disclosures	15k	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 audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected current circumstances to have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our work we: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 6 July 2020 • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic • evaluated whether sufficient audit evidence could be obtained through remote technology • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. On the basis of our work, we concluded that our anticipated audit report opinion would be unqualified with an emphasis of matter relating to the material uncertainty around the valuation of land and buildings. Note that this change to our opinion is a direct result of the impact of Covid-19. The reporting of a material uncertainty on the valuation of land and buildings is consistent across our local authority audits.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
The revenue cycle includes fraudulent transactions Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including at Leeds City Council, mean that all forms of fraud are seen as unacceptable.	We reviewed our rebuttal of this risk during the final accounts audit and concluded our assessment as detailed in the Audit Plan was still appropriate. As we did not consider this to be a significant risk for the Council, we did not undertake any specific work in this area other than our normal audit procedures, including validating total revenues to council tax, non domestic rates and central government grants income.
Management over-ride of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work on journals remains on-going, including the adjusting journals from the Council's FMS trial balance to the draft accounts. Audit work completed to date has not identified any issues in respect of the management override of controls.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings The Authority re-values its land and buildings on an annual and rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (some £5.3 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. 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, and a key audit matter.	As part of our audit work, we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation experts • discussed with the valuers the basis on which the valuation was carried out • carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate including floor areas • challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding • in a new development for 2019-20, engaged our own valuer to assess the instructions to the Authority's valuers, the Authority's valuers' report and the assumptions that underpin the valuation • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management had satisfied themselves that these were not materially different to current value at year end • considered, where the valuation date was not 31 March 2020 for assets valued in year, the arrangements management had used to ensure the valuation remains materially appropriate at 31 March 2020. Whilst our audit work remains on-going, our audit work to date has not identified any issues in respect of the valuation of land and buildings except for the following matters: • the Council uses five specialist valuers: 1. JLL – Investment Properties 2. Hilco – PFI Recycling and Energy Recovery Facility (Plant and Equipment) 3. Avison Young – PFI Recycling and Energy Recovery Facility (Land and buildings) 4. Leeds City Council – Internal Valuer (PF) - Council Housing 5. Leeds City Council - Internal Valuer (NR) - General Fund Assets Three of the valuation reports (JLL and the two Leeds City Council Internal valuations) include a material valuation uncertainty paragraph as a result of Covid-19 as well as being reported in the Council's financial statements. We consider it appropriate to include an emphasis of matter in our audit opinion relating to this material uncertainty in respect of Council Housing and Investment Properties. It is important to note that this is a national issue, applying to most local authorities with material land and building asset bases.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1.5 billion in the Authority's balance sheet at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our work, we have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • commenced work to obtain assurances from the auditor of the West Yorkshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Our audit work on the valuation of the pension fund net liability remains on-going. To date, no issues have been identified except for: • the Council was advised by the West Yorkshire Pension Fund (WYPF) in early September that AON Hewitt (the actuary) had identified an error in the asset return calculations used for the overall WYPF fund asset figures. The impact for Leeds is to increase the value of pension assets by £21.597m. The Council has adjusted for this error. We asked the Council to obtain confirmation that the impact of the McCloud judgement had been included and the likely impact of the Goodwin judgement on the pension fund net liability at 31 March 2020. The Council's actuary has confirmed: • the impact of the McCloud judgement has been included in the pension fund net liability at 31 March 2020 • the impact of the Goodwin judgement totals -£9.73m at 31 March 2020. This is an emerging national issue relating to equal survivor benefits between same and opposite sex widowers. This issue arose after the Council had prepared its draft accounts in July 2020. The Council is adjusting for this amount. We also are awaiting assurance from the West Yorkshire Pension Fund auditor on the 2019-20 Pension Fund accounts. Until received, currently expected during November, we will be unable to complete our audit work and issue our audit opinion. Where the pension fund auditor's report refers to a material uncertainty relating to Covid-19, we will need to consider the impact on the Council's accounts and our audit report.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for NNDR appeals - £20.6m	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. There has been a small reduction in this provision of £0.22m during the year.	• The underlying information used to determine the estimate appears appropriate • The calculation of the NNDR provision is consistent with the approach taken last year • An appropriate accounting policy is included in Note 4 of the Statement of Accounts.	● Green
Land and Buildings – Council Housing - £2,201m	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. The Council has engaged its in-house valuer to complete the valuation of these properties. The valuation was at 30 September 2019 and valued Council Housing at £2,201m, a net increase of £101m from 2018-19 (£2,100m). In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 30 September 2019 as a result of Covid-19. The Council has included a Covid-19 disclosure in Note 15.1e relating to the valuation uncertainty.	• The Council's in-house valuer has valued the Council's housing stock on 30 September 2019 using the beacon methodology. Whilst the valuer has confirmed that there has been no material change in beacon values from 30 September 2019 to 31 March 2020, we requested additional information from management and the Valuer to support this view • There has been an increase in the housing stock valuation of £101m. Our review of the increase when comparing to the Gerald Eve report movements indicates the increase is reasonable • Capital additions to Council housing total £93.9m for 2019-20. There were £5.5m of Council house disposals during the year and £1.8m of impairments • 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. Whilst we recognise the progress made by the Council in moving its valuation date from 1 April to 30 September in 2018, we consider it appropriate for the valuation date to be at the year end (31 March) providing a more accurate valuation position. We have raised a recommendation in this respect in the Action Plan at Appendix A • We have agreed the HRA valuation report to the Statement of Accounts. Our audit work is substantially complete except for the review of the work by the engagement lead and engagement manager and the impact of any issues arising from the 'hot review' of the draft accounts. We will provide a further update to the Audit Committee on 23 November.	● Amber

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 estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £2,493m	Other land and buildings comprises £2,086m of specialised assets such as schools and libraries as well as the PFI Recycling and Energy Recovery Facility (£120m), which are required to be valued at depreciated replacement cost (DRC), reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£407m) are not specialised in nature and are required to be valued at existing use value (EUV - £72m) for example car parks, and open market value (OMV - £335m) for example Council Offices at the year end. The Council has engaged its in-house valuer to complete the valuation of properties as at 30 September 2019 with two external valuers valuing the Waste to Energy Plant. Approximately 94% of total assets (by value) were revalued during 2019-20. In line with RICS guidance, the Council's in-house valuer disclosed a material uncertainty in the valuation of the Council's land and buildings as a result of Covid-19, a similar material uncertainty was also included by JLL, in respect of the valuation of Investment Properties. The Council has included a Covid-19 disclosure in Note 15.1e relating to the valuation uncertainty. The valuation of properties valued by the valuer has resulted in a net increase of £222m. Management has considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 30 September 2019, based on the market review provided by the valuer as at 31 March 2020, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of Other land and buildings was £2,493m.	• We have assessed the Council's in-house valuer, and the two external valuers to be competent, capable and objective • We have carried out completeness and accuracy testing of the underlying information provided to the valuers used to determine the estimate including floor areas where appropriate and have no issues to report • The valuation method remains consistent with the prior year. Whilst we recognise the progress made by the Council in moving its valuation date from 1 April to 30 September in 2018, we consider it appropriate for the valuation date to be at the year end (31 March) providing a more accurate valuation position. We have raised a recommendation in this respect in the Action Plan at Appendix A. • We confirm consistency of the estimate against the Gerald Eve report, and reasonableness of the increase in the estimate • We have agreed the General Fund valuation report to the Fixed Asset Register and to the Statement of Accounts. Our audit work is substantially complete except for the review of the work by the engagement lead and engagement manager and the impact of any issues arising from the 'hot review' of the draft accounts. We will provide a further update to the Audit Committee on 23 November.	● Amber

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Heritage Assets - £122m	Heritage assets are those assets with historical, artistic or cultural qualities that are held and maintained for their contribution to knowledge and culture, and are intended to be preserved for future generations. Heritage assets are held at current value where a valuation can be obtained, otherwise they are recorded at historic cost. Where no cost or valuation information is available, heritage assets are not included in the balance sheet. The Council records two groups of heritage assets on its balance sheet, historic buildings, and artworks and museum exhibits. The Council's accounting policy is to record all Heritage assets over £1m. The value of historic buildings at 31 March 2020 totalled £6.7m and artworks and museum exhibits amounted to £6.2m, both of which were held at cost. A further £108.9m of artworks and museum exhibits were held at valuation. The total year end value of Heritage Assets was £122m, an increase of £25m over the previous year, mainly due to revaluations of £23.9m and acquisitions of £0.8m.	• We have reviewed the valuations undertaken on a sample basis to ensure the appropriateness of the valuations used • We have considered valuations which have been based on past auction market prices in addition to insurance values • We reviewed the revaluation movement for the year and identified this included ten assets valued over £1m and totalling £17.85m being erroneously omitted over a number of years. This error arose as a result of a number of heritage assets under £1m increasing to over the £1m de-minimis amount and not being notified to the finance team. • The Council should strengthen its arrangements for identifying heritage assets over £1m and the process to formally inform the finance team to ensure all heritage assets above the £1m threshold are recorded in the financial statements. We have raised a control recommendation in this regard at Appendix A (no adjustment to the financial statements is required). • We have agreed Heritage Assets to the Statement of Accounts. We understand following discussions with management that a further asset is expected to be added to heritage assets as its valuation is in excess of £1m. The Finance team are awaiting further information from the Museum Curator. Our audit work remains on-going.	Amber

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £1,747m (includes Teachers discretionary pensions £77m)	The Council's net pension liability at 31 March 2020 is £1,747m (PY £1,539m) comprising the Council's element of the West Yorkshire Pension Fund (WYPF). The Council uses AON Hewitt to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. 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 £208m net actuarial loss during 2019-20 (as per the draft accounts).	Our work on the Council's net pension liability remains on-going. • We have assessed the Council's actuary, AON Hewitt, 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 2019 roll forward calculation carried out by the actuary. • 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:	

Assumption	Actuary Value	PwC comments	Assessment
Discount rate	2.3%	The methodology is reasonable and results in assumptions within, albeit towards the bottom (prudent) end of our expected ranges at 31 March 2020 for all employers.	Green
Pension increase rate	2.1% – 1.90%	Inflation sits towards the top, more prudent end, of our expected range as at 31 March 2020 and hence the assumption can be considered reasonable.	Green
Salary growth	3.0% - 3.6%	In line with the 2019 valuation. 1.0% to 1.5% above CPI plus promotional salary increases.	Green
Life expectancy – Males currently aged 45 / 65	Pensioners: 20.8 - 23.0 Non-pensioners: 22.5 - 24.7	Overall mortality assumptions are reasonable.	Green
Life expectancy – Females currently aged 45 / 65	Pensioners: 23.5 - 25.5 Non-pensioners: 25.0 - 27.2	Overall mortality assumptions are reasonable.	Green

- We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate
- We have confirmed there were no significant changes in 2019-20 to the valuation method
- Reasonableness of estimate – following the quantification of the Goodwin judgement at 31 March 2020 of -£9.73m, Management is adjusting for this amount.
- We are awaiting the assurance letter from the West Yorkshire Pension Fund auditor on the 2019-20 Pension Fund accounts.

Significant findings – Going Concern

Our responsibility

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

Background

It has been a challenging year due to the Covid-19 pandemic and the impact of this has been through additional costs to support operational services, lost income through reduced trading activity and some cessation of services (including leisure centres). In addition, council tax payments and business rates payments reduced as lock down started, businesses closed, and businesses furloughed staff. The additional costs have not had a significant impact on the financial outturn for 2019-20 as the pandemic only started to impact from mid-March, however, the scale of the impact is being felt during 2020-21 and into 2021-22. Given the impact of Covid-19 on the Council's finances, we have identified this as an area of focus in our audit.

Going concern commentary	Auditor 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, savings 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 the Council's Executive Board. Cash flow is also routinely monitored as part of the Council's treasury management arrangements. The Council has in place a five year Medium Term Financial Strategy 2021-22 to 2025-26 to allow it to effectively plan its finances ahead and ensure it is able to effectively manage its financial position. The updated MTFS was approved by Executive Board on 24 September 2020 and incorporates the impact of Covid-19. 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.	• The Council delivered in year savings of £28.1m compared to the original savings target of £22.6m, which was subsequently revised to £29.0m. It has also managed the financial pressures faced in year to ensure expenditure remained within the approved budget. The Council delivered a small outturn General Fund overspend for 2019-20 of £0.3m compared to a budgeted balanced position for the year on service expenditure of £516.7m. • The budget setting processes used to prepare the annual budget and the monitoring arrangements in place are considered appropriate and adequate. The Council's Chief Finance Officer routinely monitors the Council's financial position and reports regularly to Members. • The Covid-19 pandemic has had a considerable impact on the Council from March 2020. The additional costs have not had a significant impact on the financial outturn for 2019-20 given the pandemic started to impact from mid-March. However, the scale of impact is being felt during 2020-21. There have been significant financial challenges as the Council responded to the COVID-19 pandemic through additional costs to support operational services, lost income through reduced trading activity and some cessation of services including leisure centres. • In addition, council tax payments and business rates payments have reduced as lock down began, businesses closed and businesses furloughed staff. The Council currently estimates the impact of Covid-19 for 2020-21 to be £163m which has been off set by underspends elsewhere of £5.8m resulting in net additional Covid-19 costs of £157.1m. The Council has received grants from Central Government to date of £67.9m, and with the Collection Fund income shortfall of £43.9m not impacting on the revenue position until 2021/22, the net COVID funding gap for 2020/21 stands at £30.5m which the Council has plans to deal within their existing resources. We note that the Council has withdrawn its earlier request from MHCLG and Treasury relating to a capitalisation order for 2020-21. • The MTFS indicates an overall budget gap of £166.3m over the five year life of the Medium Term Financial Strategy, of which £118.76m relates to 2021-22. The Council has started a series of service and budget reviews which have been incorporated into budget savings proposals and consider this gap has now been reduced as a result of a number of measures including a proposed reduction of 617 FTEs, a review of the capital programme and departmental savings. • We have yet to consider management's assessment of going concern as a basis for compiling the financial statements. At the time of drafting this report the Council is currently compiling its going concern assessment which we will review upon receipt and comment on in our updated report to the Corporate Governance and Audit Committee on 14 December 2020.

Significant findings – Going Concern

Going concern commentary	Auditor commentary
Work performed We considered management's going concern assessment including the assumptions used and consideration of its Medium Term Financial Strategy.	• **To be added once management's assessment of going concern as a basis for compiling the financial statements is received. This will be updated for the Corporate Governance and Audit Committee meeting on 14 December 2020.**
Concluding comments	• **TBC**

Other matters for communication

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	Auditor commentary
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 the Council's Monitoring Officer. We have not been made aware of any material incidents in the period except two, these do not impact on the draft financial statements. No other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed, however, the Council has only disclosed related parties in respect of senior officers using information from last year, 2018/19, as the normal returns expected in January and February 2020 have not been collated as a result of Covid-19. We have requested this information be collated and disclosed and have raised a recommendation at Appendix A.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council which is included at Appendix F.
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 one remains outstanding. We will continue to follow this up during completion of the audit.
Disclosures	Our review found the following omissions in the financial statements to date: • the Code requires useable and unusable reserves to be disclosed on the balance sheet. Whilst there is breakdown of these reserves currently shown on the balance sheet total useable and unusable reserves are not disclosed • the Code requires the GF Balance to be shown in the MIRS. Whilst there are columns for GF and GF Earmarked Reserves there is no column for the total GF balance • there is no Glossary of Terms included to aid the reader • the balance sheet does not include a separate line for investments in associates and joint ventures • no disclosure is made of the amount of contractual commitments for the acquisition of property, plant and equipment • there are a number of disclosure omissions relating to finance leases (both lessee and lessor) • pension information about the maturity profile of the defined benefit obligations is not shown • renewal and termination options relating to service concession (PFI and PPP) arrangements is not disclosed. The finance team are currently considering these disclosure issues. Our work also identified a number of presentational disclosure amendments which are set out at Appendix B.

Other matters for communication

Issue	Auditor commentary
Audit evidence and explanations / significant difficulties	The provision of accounts working papers was initially delayed as a suitable platform to provide these was not available. Whilst some working papers were initially provided using secure Mimecast transfer facilities, all working papers were not available at that time. Once an on-line shared facility was provided, working papers were added on an on-going basis. A general theme noted was that whilst working papers showed the build up of the numbers included in the accounts, there was generally a gap in reconciling these to the Council's FMS system. This required additional audit work to agree in some instances or further requests to management for additional information. A recommendation has been raised on this matter in the Action Plan at Appendix A. Our audit work to agree the Council's FMS (trial balance) to the CIES and Balance Sheet took considerably longer than expected, this was due to the Council's FMS system being complex, also including other entities that needed to be excluded, as well as being over 30 years old reducing its functionality. These issues are not prevalent on other local government audits where standard finance systems reconcile relatively straightforwardly to the accounts. We understand the Council is considering a new ledger system in the next few years. There were some undoubted challenges arising from delivering the year-end audit in a wholly remote fashion, with both finance colleagues and members of our audit team all working from home. This remote working on both sides, combined with the increased level of audit testing performed and audit evidence required resulted in the audit fieldwork taking longer than planned. Given some element of remote/home working is likely to still be in place for 2020-21, we will be discussing with the finance team how we can continue to work together to mitigate these issues next year. Except for the above, all information and explanations requested from management was provided. We would like to record our thanks to the finance team in providing the information requested remotely despite the challenges of remote working resulting from Covid-19.
Accounting Policy – Merrion House	Merrion House is a multi-story Office block situated in the Merrion Centre, an established Shopping Centre based in Leeds City Centre. The offices have been occupied by Leeds City Council for a number of years. The Council agreed a prepayment of the rental for the remaining duration of the lease to provide a significant saving to the Council. A Rent Advance agreement was entered into in 2019, amending the original lease so that there would be a prepayment of rent of £54m to be followed immediately by a distribution of capital of £27m to each of the two Limited Liability Partnership (LLP) members (Town Centre Securities and Leeds City Council). This transaction was recognised by Leeds City Council in its 2018-19 accounts. The accounting treatment at that time was to recognise the gross prepayment of rent on the council's balance sheet as a payment in advance to be amortised over the life of the lease, and the capital distribution as deferred income, also to be recognised over the life of the lease. Having now received the LLP's accounts for 2018-19, the Council has reconsidered its approach, the influencing change is that the LLP's accounts show the capital distribution to members as an immediate transfer of net worth from the LLP. In the light of this, the Council considers that it should now recognise the distribution it received fully as income, and reduce the fair value of its holding in the LLP correspondingly. The Council is proposing that the balance of £25.65m shown as deferred income in its draft accounts would be recognised as revenue income and transferred to an earmarked reserve, to be applied during the remaining life of the lease. We are currently considering with Officers whether this change should properly be reflected in 2019-20 or 2018-19 (and require a Prior Period Adjustment (PPA) to be processed), as well as the accounting treatment for reducing the fair value of the Council's holding in the LLP.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Whilst our work has not identified any compliance issues, we did identify two possible development opportunities: • the AGS is long at 63 pages and consideration should be given to reducing its length. We understand a review of the AGS is scheduled to be undertaken next year and the length of the AGS will be considered at this time. Given this planned review, we have not included a recommendation regarding the length of the AGS this year • the action plan from last year, 2019 is shown along with the action plan for 2020. We consider it would be helpful to set out how many of the 29 actions from 2019 have been delivered and how may remain outstanding and when these will be implemented. Management is updating the AGS for this suggestion. No further inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – please see our proposed audit opinion at Appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • 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 • If we have applied any of our statutory powers or duties. Following the expected updating of the AGS referred to above, we have nothing to report on these matters
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. 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. This work is not yet commenced and will be completed once all other audit work has been concluded.
Certification of the closure of the audit	As a result of the need to complete the WGA work noted above, we do not expect to be able to certify the completion of the 2019-20 audit of the Council in our auditor's report, as detailed at Appendix E. This is in common with a number of local authorities where certification on closure of the audit takes place following completion of the WGA review by December 2020.

3. Value for Money

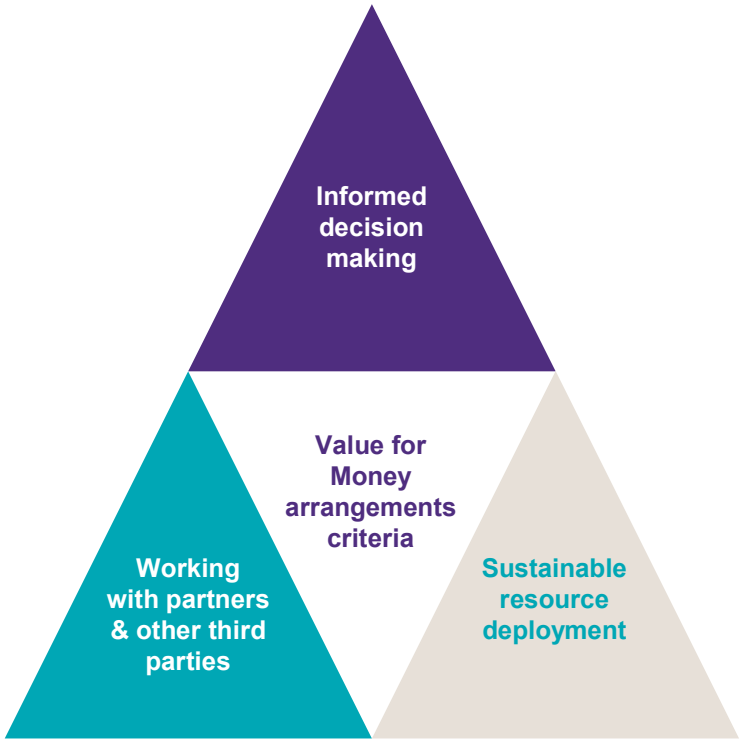
Background to our VFM approach

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 April 2020. 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 2019 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 dated January 2020.

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:

1. **Financial standing** – the Authority as other authorities, continues to operate under significant financial pressures.
2. **Brexit** - the UK left the European Union on 31 January 2020 with a transition period until 31 December 2020. There will be national and local implications resulting from Brexit that will impact on the Authority, which it will need to plan for.

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 20 to 25.

Overall conclusion

Based on the work we performed to address the significant Brexit risk, we are satisfied that the Council had appropriate arrangements in place. However, the financial impact of Covid-19 has been significant on the Council and highlights the inadequacy of the Council's General Fund Reserves and balances to cushion the impact of major events, requiring the Council to take a range of unplanned and short term measures to manage the additional costs.

This situation indicates weaknesses in the level of General Fund Reserves to deal with significant unforeseen circumstances resulting from the Council's arrangements for financial management. Except for this matter, the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing a qualified 'except for' value for money conclusion {TO BE CONFIRMED}, as detailed at Appendix E. Our findings are summarised on pages 22 to 28.

Recommendations for improvement

We discussed the findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

The significant impact which Covid-19 has had on the Council's finances, and the on-going dialogue with MHCLG (and Treasury) in respect of additional support, which remained on-going until recently, has resulted in us taking longer to complete our work. We did not identify any other 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.

Value for Money

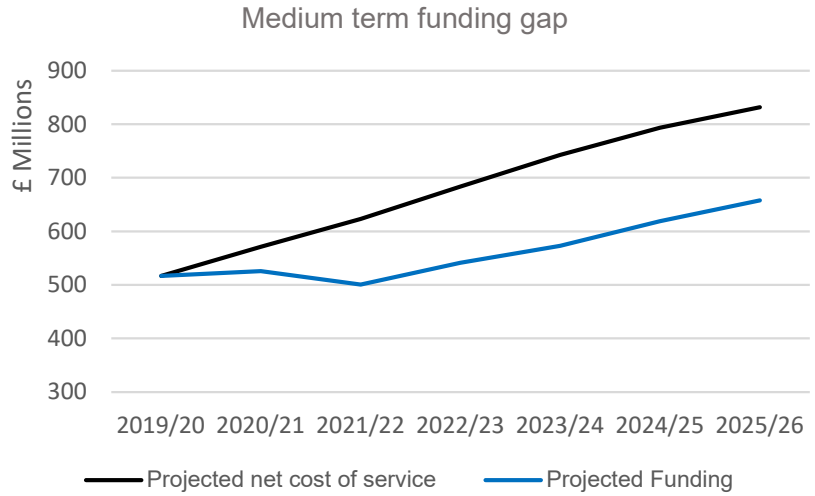
Key findings

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.

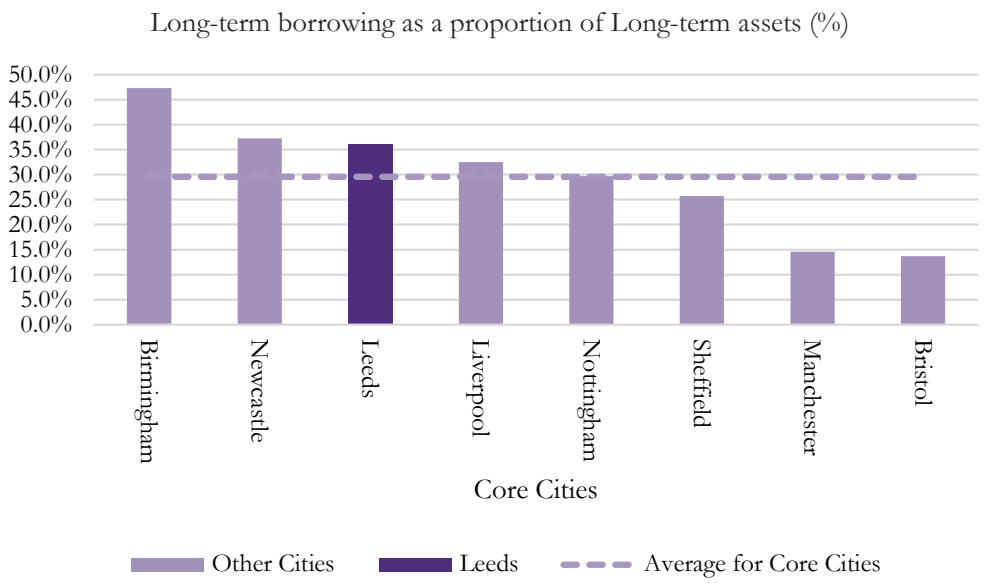
Significant risk per our Audit Plan (January 2020)	Findings	Conclusion
Financial Standing Leeds City Council, in common with other authorities, continues to operate under significant financial pressures. For 2019-20, the Council was planning to deliver a balanced outturn position but to achieve this, needed to deliver savings of some £24.4m whilst continuing to manage cost pressures within Children's Services. The Financial Monitoring Report presented to Executive Board on 7 January 2020 to Month 7 (October 2019), indicated the majority of savings plans were on track to be delivered although highlighted some risks that needed to be managed, including the impact of delayed capital receipts. We will continue to monitor the Authority's financial position through regular meetings with senior management and consider how the Authority manages overspends within Children's Services and the impact of delayed capital receipts. We will continue to assess progress in the identification and delivery of the £24.4m savings required and plans in place to identify cost improvements into 2020-21 and beyond.	**2019-20 outturn:** The Council delivered a small outturn General Fund overspend for 2019-20 of £0.3m compared to a budgeted balanced position for the year on service expenditure of £516.7m. The most significant factor in the overspend of £0.3m was an overspend of £1.3m within Children and Families which was offset by an underspend of £0.6m in the central accounts budget. Of the remaining directorates, Adults and Health achieved a balanced position, with Resources and Housing, Communities and Environment and City Development all recording small underspends. Actual savings delivered in 2019-20 totalled £28.1m compared to the original savings target of £24.4m which was then revised during the year to £29.0m. The Council contributed £3.5m to the General Fund Reserve at the year end increasing the General Fund Reserve to £31.5m at 31 March 2020. This increase continues to support the Council's strategy to increase reserves to strengthen its financial resilience. The percentage of local taxation collected in year was 95.9% for council tax (96.1% in 2018/19) and 97.3% for business rates (97.8% in 2018/19). The Housing Revenue Account delivered a balanced outturn position for 2019/20. Capital spend during the year totalled £270.4m (General Fund) compared to a budget of £290.4m, the variance arose mainly as a result of slippage on a number of schemes. Key developments during 2019-20 included the East Leeds Orbital Road, the West Yorkshire Playhouse and the vehicle replacement programme underpinning the Council's emissions reduction programme. The Council went into the Covid-19 pandemic with low reserves as noted in our Audit Findings Report last year. **2020-21 budget, 2021-22 plans and the impact of Covid-19:** The Council approved the 2020-21 budget on 26 February 2020 Council Tax for 2020-21 would increase by 1.99% plus an additional 2% for the Adult Social Care precept, a total increase of 3.99% on net expenditure of £525.7m. The Council needed to deliver savings of £28.4m in 2020-21, after the use of £10m from the Council's general reserves to balance the 2020-21 budget. This reduces the Council's general reserves from £31.5m at 31 March 2020, to £22.5m at 31 March 2021 (after a £1m contribution from treasury management savings). The Council's earmarked reserves at 31 March 2020 amounted to £77.5m, however, not all of these are available to support the Council's position (eg Schools Balances and Covid-19 support of £37m). These plans were in place prior to the initial national lockdown from Covid-19 on 23 March 2020.	In our Audit Findings Report last year, we reported that the Council had continued to maintain its reserves at around 5% of net revenue expenditure. Discussions with management indicate this was due to the Council making informed decisions regarding the level of balances and reserves as part of a strategy to protect the provision of front line services. We recommended in our Audit Findings Report last year that 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. The Council agreed to annually review its strategy to ensure that it retains an appropriate level of balances within its general reserves. Covid-19 has significantly impacted on the Council from March 2020. The impact is most significant in the current year, 2020-21 with additional costs of £30.5m and next year, 2021-22 where the budget shortfall is currently estimated at £118.7m. Prior to Covid-19, the Council continued to operate under significant financial pressures, however, it had effective arrangements in place to routinely monitor its budget and take appropriate action to mitigate against any variances or additional calls on resources. This helped deliver the small overspend of £0.3m for 2019-20.

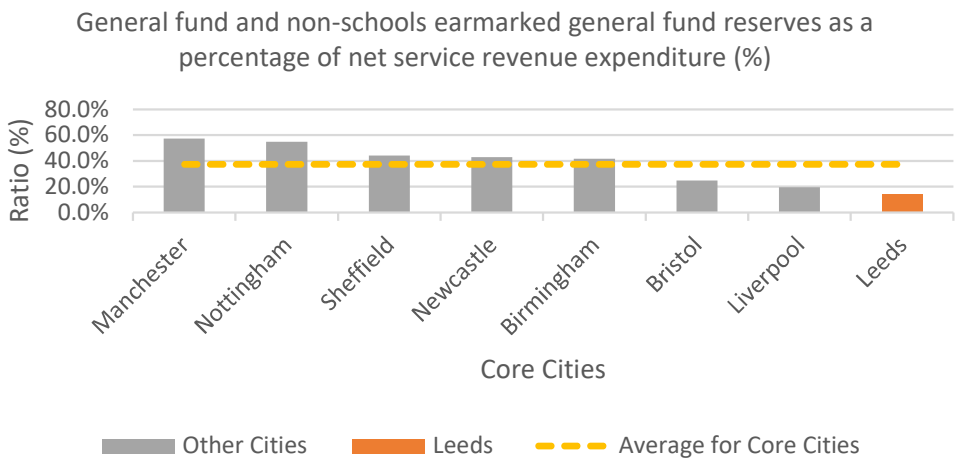
Significant risk	Findings	Conclusion
Financial Standing continued 2	The Covid-19 pandemic has had a considerable impact on the Council from March 2020. The additional costs (based on the September Executive Board Report) have not had a significant impact on the financial outturn for 2019-20 as the pandemic only started to impact from mid-March. However, the scale of impact is being felt during 2020-21. There have been significant financial challenges as the Council responded to the Covid-19 pandemic through additional costs to support operational services, lost income through reduced trading activity or cessation of some services (such as leisure centres). In addition council tax payments and business rates payments have reduced as lock down began, businesses closed and businesses furloughed staff. The Council estimates the impact of Covid-19 for 2020-21 to be £163.0m. The Council has been allocated grants from Central Government of £67.9m which will be used to offset the additional Covid-19 costs for 2020-21 reducing the net impact to £95.1m. Of this total amount, £42.6m relates to a shortfall in Council Tax and Non Domestic rates which would impact in the following year, 2021-22, resulting in the total net shortfall for 2020/21 of £52.5m. The Council implemented some immediate management measures to start to mitigate the financial pressures faced, including: 1. Implementation of a recruitment freeze 2. Restrictions on utilisation of agency and overtime 3. Implementation of an immediate freeze on non-essential spend 4. Review of the current procurement strategy to see whether commissioning could be stopped, slipped or re-specified at a lower value to achieve savings 5. Capturing savings resulting from the current lockdown 6. Active promotion of the Council's Early Leaver's Initiative (ELI) scheme, allowing staff to exit the Authority where a business case exists. We understand that due to existing agreements in place with Unions, the Council is unable to reduce staffing levels in the short term to assist with the 2020-21 shortfall. An updated Medium Term Financial Strategy covering the five years 2021-22 to 2025-26 was presented to Executive Board on 24 September 2020. The rolling five year strategy has been updated and incorporates the impact of Covid-19 and makes various assumptions about funding and business rates retention all based on the information known at the time the MTFS was prepared. In summary, there is an overall estimated budget gap of £166.3m over the life of the Medium Term Financial Strategy, of which £118.76m relates to 2021-22, £18.7m in 2022-23, £25.8m in 2023-24, £3.6m in 2024-25 and a small £0.5m surplus in 2025-26.	However, the impact of Covid-19 has had a significant impact on the Council from mid March 2020, with additional costs to support operational services, lost income, reduced council tax and business rates payments all impacting on the Council's financial standing. The level of the Council's general fund reserves which amount to £31.5m at 31 March 2020, were initially considered insufficient to absorb the additional costs associated with Covid-19. The Council also has an additional £77.5m of earmarked reserves. Whilst the Council believed it had sufficient time to manage its position for 2021-22 through a range of actions to reduce overall expenditure, it believed it was at that time unable to absorb the additional costs for 2020-21 without significantly impacting on services. As a result, the Council requested support from MHCLG in May 2020 through a capitalisation order to allow the Council to better manage the situation over a longer period, rather than having to make short term decisions. We understand from the November 2020 Executive Board Report, that if support is not agreed with MHCLG by the end of November, the Council will bring forward budget proposals to balance the budget for 2020-21 in December 2020. We understand the Chief Finance Officer does not consider a S114 Notice under the Local Government Finance Act 1988 (where expenditure of the authority is likely to exceed the resources available) will be likely, although this has not been ruled out. When Covid-19 took hold in late March and early April, the Council took a range of actions to mitigate the financial impact of Covid-19, and believed it had sufficient time to manage the additional financial pressures resulting from Covid-19 in 2021-22, however, it considered it

Significant risk	Findings	Conclusion
Financial Standing continued 3	The Council has started a series of service and budget reviews which have been incorporated into budget savings to contribute towards addressing the reported estimated budget gap for 2020-21 and 2021-22. The most recent projections to the Executive Board in November 2020 indicate the total impact of Covid-19 for 2020/21 at £160.0m which reduces to £153.8m after £6.2m of non Covid-19 savings. To date, the Council has received £51.6m of grants from Central Government relating to Covid-19, of which £2.6m have been applied in 2019-20, leaving £49.0m for 2020-21. A further £18.9m in grants is expected for lost income. The Government also announced an additional £1bn of funding for local authorities on 12 October, Leeds will receive £20.6m of this new funding, reducing the total impact of Covid-19 to £71.6m. The collection Fund shortfall for 2020-21 will impact in 2021-22 reducing the total impact for 2020-21 to a net £30.5m. The Executive Board Report also notes that if support is not agreed with MHCLG by the end of November, the Council will proceed to an emergency budget to balance the budget for 2020-21 in December 2020. The Council contacted MHCLG following the Executive Board on 19 May to ask for financial assistance to: 1. Underwrite the shortfall in Business Rates resulting from Covid-19 2. Compensate the Council for any shortfall against budget regarding the level of Council Tax collected as a result of COVID-19 3. Fund 100% of the Local Council Tax Support (LCTS) scheme to protect authorities against loss of council tax income due to an increase in claimants 4. Write off PWLB debt held by local authorities or, failing this, reduce interest rates for PWLB debt to the cost to Government 5. Underwrite any variation in the level of income receivable from fees and charges that have been impacted by COVID-19. In total, we understand the request for financial assistance equates to a £50m capitalisation order over a 50 year period from MHCLG. The Council is continuing to have dialogue with MHCLG on this support. No decision had been reached at the time of drafting this report. We have continued to have regular discussions with the Council's Chief Finance Officer as to the actions being taken to address the budget shortfall and understand through these discussions that members have been fully briefed and are supportive of the actions being taken. We also wrote to the Chief Finance Officer on 1 June 2020 once we had discussed the financial pressures facing the Council resulting from Covid-19, this was also presented to the Audit Committee at its July meeting.	may not be able to absorb the additional costs relating to 2020-21, and in May 2020, requested additional support from the Ministry of Housing Communities and Local Government (MHCLG) and Treasury. We understand from management that the request for a capitalisation order was an informed decision taken by the Council to allow it to manage the situation over a longer period, rather than having to make short term decisions. Since this time, the Council has been taking steps to reduce the budget gap resulting from Covid-19 through a range of measures, and by November 2020, had reduced the gap to £30.5m (from some £95.1m). At this point, the Council felt it was able to manage the remaining additional costs for 2020/21 and withdrew its application for a capitalisation order on 12 November 2020. Overall, if Covid-19 had not taken place, the Council's financial position would have continued to be sufficiently stable to manage the financial impact of small unforeseen events as in previous years, however, the financial impact of Covid-19 has been significant and highlights the inadequacy of the Council's General Fund Reserves and balances to cushion the impact of major events, requiring the Council to take a range of unplanned and short term measures to manage the additional costs. This situation indicates weaknesses in the level of General Fund Reserves to deal with significant unforeseen circumstances resulting from the Council's arrangements for financial management. Except for this matter, the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing a qualified 'except for' value for money conclusion {TO BE CONFIRMED}.

Significant risk	Findings	Conclusion
Financial Standing continued 4	We also understand that whilst discussions with MHCLG remain on-going, the Council continues to take action to reduce it's cost base for 2021-22, including a reduction in 617 FTE staff, amounting to some £40.5m in savings and reducing the overall budget gap for 2021-22 to £78.3m. Further savings proposals will continue to be presented to the Council's Executive Board to address the remaining budget gap. Discussions with the Chief Financial Officer indicate additional savings plans of some £60m are being developed. Following the reduction to the 2020/21 Covid-19 financial gap to £30.5m in November 2020, the Council reassessed its position and considered it was able to manage the remaining gap without additional support from MHCLG and Treasury. As a result, the Council withdrew its request for MHCLG and Treasury support on 12 November 2020. **Financial Foresight model** We asked our Specialist Financial Review Team to run a Financial Foresight model for the Council's medium term funding gap based on publicly available information. The analysis undertaken is based on the Council's outturn for 2019/20, and the projections included in its five year MTFS.  The analysis shown above indicates graphically the financial gap between the Council's projected levels of income, and its projected net spending, identifying the financial gap the Council needs to address from 2020/21 onwards. In addition to the above, we have compared the Council's reserves and its long term borrowings with the core cities as at 31 March 2020.	We have repeated our recommendation from last year, that 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 be reviewed each year. Additionally, the Council should consider whether it has explored all possible options to further reduce expenditure in all service areas, including discretionary spending. In addition, we have agreed a number of recommendations with management relating to the delivery of a balanced outturn position for 2020/21, and an achievable and realistic budget for 2021/22 which can be delivered. As part of considering the 2021/22 budget, we will also consider the Chief Finance Officer's Section 25 Report under the Local Government Act 2003 relating to the robustness of estimates and the adequacy of financial reserves. We have also agreed to continue to meet on a monthly basis with the Council's Chief Finance Officer to consider the actions being planned, taken and delivered to achieve savings in both 2020/21 and 2021/22 and to monitor the Council's financial position for both years. These recommendations have been included at Appendix A. Any deterioration in the Council's financial position for 2020/21 or planned position for 2021/22, could lead us to consider exercising our additional statutory powers under Part 5, Section 24, Schedule 7 (Paragraph 2) of the Local Audit and Accountability Act 2014 in respect of written recommendations.

Significant risk	Findings	Conclusion
Financial Standing continued 5	This analysis indicates that the Council's long term borrowings are higher than a number of other core cities whilst its level of reserves are the lowest.	





Value for Money

Significant risk per our Audit Plan (January 2020)	Findings	Conclusion
Brexit The UK left the European Union on 31 January 2020 with a transition period until 31 December 2020. There will be national and local implications resulting from Brexit that will impact on the Authority, which the Authority will need to plan for. We are aware of the Authority's planning for Brexit from our consideration of the Authority's arrangements as part of our prior year VFM related work. For the current year, we will consider the Authority's on-going arrangements and plans to mitigate any risks on Brexit.	On 23 June 2016, the UK voted to leave the European Union. Article 50 was triggered on 29 March 2017 and the UK formally left the EU on 31 January 2020. While the UK has agreed the terms of its EU departure, both sides are agreeing their future relationship during the transition period, which began immediately after the UK left the EU and is due to end on 31 December 2020. During this 11-month period, the UK will continue to follow all of the EU's rules and its trading relationship will remain the same. Following the result of the June 2016 referendum, Leeds City Council's Executive Board considered a report in July 2016 and approved the report outlining five main areas that the council and its partners would focus on in the run-up to Brexit: 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; and 5. Providing confident, outward-looking leadership and image of Leeds as an international city. 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 the existing 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 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 is consistent with planning at a West Yorkshire level through the Local Resilience Forum (LRF) and national plans led by government.	The Council has continued to monitor Brexit developments following the referendum in June 2016 and has continued to liaise with neighbouring authorities and other agencies to ensure a co-ordinated approach to an EU exit through the West Yorkshire Local Resilience Forum. 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 Council recognises Brexit may impact on local businesses and set up a dedicated page on Brexit on its website to support both individuals, businesses and people wanting to apply to remain under the EU Settlement Scheme. The Council continues to monitor developments and liaise with its partners to ensure it remains prepared for Brexit on 31 December 2020. The Council has appropriate arrangements in place for managing both the local and national implications resulting from Brexit as well as regular reporting to members. We will continue to monitor the Council's plans to manage Brexit as part of our 2020-21 audit.

Value for Money

Significant risk	Findings	Conclusion
Brexit continued 2	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. To date, the Council has received £315k from central government for Brexit preparations, which has been allocated to support specific Brexit related work and to cover staffing resources to co-ordinate Brexit preparedness. Executive Board has continued to receive regular reports on Brexit and the strategic response plan. The last report to Executive Board was on 21 October 2020 and highlighted the following key matters: 1. As there was no extension to the transition period, the UK will no longer be bound by EU rules on 1 January 2021. From then, the UK and its businesses will trade on either the new terms negotiated in a free trade agreement (FTA), or the UK will leave the EU with “no deal”, and start trading with the EU on World Trade Organisation (WTO) terms. 2. In the Government’s Reasonable Worst Case Scenario (RWCS) for borders at the end of the transition period, it has been made clear that regardless of the outcome, (trading on a new FTA basis, or on WTO terms), there will be additional checks for imports and exports. Those involved in cross-border trade such as traders and hauliers must act now and get ready for new formalities that will be in place from 1 January 2021. 3 On 8 October the Government published an updated Border Operation Model. The model includes potential locations for inland border infrastructure locations, there are no potential sites in the Yorkshire & Humber region. However the Government has passed secondary legislation providing the right to construct “lorry parks” if required, including one in East Yorkshire, to alleviate potential border delays. 4. To aid UK businesses and individuals prepare for the end of the transition period, the Government introduced a new campaign in July – ‘The UK’s new start: let’s get going’. Its aim is to ensure everyone is ready to seize the opportunities available, prepare for any changes to how they may trade and travel after the transition period. The Council’s website has been updated to reflect the up to date advice given by the Government.	

Value for Money

Significant risk	Findings	Conclusion
Brexit continued 3	5. The coronavirus pandemic has had unprecedented impact at a global, national and local level. This has led to a pause in some Brexit preparations while resources were redirected to tackle the immediate threat of the virus. However, the Council continues to focus on the economic and social implications of the transition arrangements. The Brexit Officer Working Group met in September, and will continue to co-ordinate preparedness and refresh the strategic response plan where needed. 6. The cross party Member's Working Group met again in October and continues to play a key part in highlighting important issues which feed into the preparatory response work. 7. The council continues to progress the local implementation of the EU Settlement Scheme. From the most recently available Home Office statistics (up to 30 June 2020), in Leeds there has been 38,880 applications to the EUSS, of which 35,330 have received a decision. 8. Throughout the Coronavirus pandemic, the Council has continued to maintain a close relationship with businesses and business representative groups through a variety of meetings. The Council will continue to work with its partners in the coming months as the national context for the future relationship with the EU becomes clearer.	

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are included at Appendix D

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.

	Fees £	Threats identified	Safeguards
Audit related:			
NONE	-	-	-
Non-audit related:			
CFO Insights	£17,500	Self-Interest (because this is a recurring fee)	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. 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 £198,954 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.

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 2020-21 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
● Medium	**Valuation of land and buildings** The Council moved its valuation date from 1 April to 30 September in 2018. This approach requires an estimation from 30 September to 31 March at the year end to ensure there has not been a material change in asset values. There is a risk that asset values are not correctly valued in the financial statements.	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. **Management response** As noted in previous years, the council's valuers have advised that it would not be possible to produce valuations based on observable data at the valuation date within the required timescales. The possibility of changing the valuation date to early January is being explored.
● Medium	**Heritage Assets** Our review of the revaluation movement identified ten assets valued over £1m and totalling £17.85m being erroneously omitted over a number of years. This error arose as a result of a number of heritage assets under £1m increasing to over the £1m de-minimis amount and not being notified to the finance team.	The Council should strengthen its arrangements for identifying heritage assets over £1m and the process to formally inform the finance team to ensure all heritage assets above the £1m threshold are recorded in the financial statements. **Management response** The Corporate Finance team will work with the Museums & Galleries Service to improve the process for identifying high value assets.
● Medium	**Working Papers** The provision of working papers was initially delayed as a suitable platform to provide these was not available. Once a shared facility was provided, working papers were added on an on-going basis. A general theme noted was that whilst working papers showed the build up of the numbers in the accounts, there was generally a gap in reconciling these to the FMS system. This required additional work to agree or further requests to management for additional information.	Management should introduce a review process where working papers produced are reviewed by someone independent of the preparers and signed off before being uploaded for auditor access. **Management response** The Finance team will liaise with Grant Thornton to ensure that the nature and scope of working papers requested can be confirmed in good time in advance of future audits.

Key
- ● High priority (Red)
- ● Medium priority (Amber)
- ● Low priority (Green)

Appendix A: Action Plan continued

Assessment	Issue and risk	Recommendations
● High	**Future level of useable reserves** As reported last year, the Council has maintained the level of its reserves at around 5% of total net revenue expenditure. The impact of Covid-19 has shown the level of reserves is not sufficient for unforeseen events. There is a need for the Council to consider the adequacy of its reserves going forward.	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 be reviewed each year. **Management response** Agreed. The Council recognises the requirement to keep the level of reserves under review. Whilst the current MTFS provides for a budgeted contribution to the General Reserve the Council will continue to maintain a robust approach towards its management of risk especially in the determination of the level of reserves that it maintains.
● High	**Reducing Council expenditure** The Council is currently trying to balance a budget gap of £30.5m for 2020-21. The Council should consider whether it has explored all possible options to further reduce expenditure in all service areas, including discretionary spending.	The Council should consider whether it has explored all possible options to further reduce expenditure in all service areas, including discretionary spending. **Management response** Agreed. Whilst from May the Council has implemented a number of measures such a freeze on non-essential spend, recruitment and the use of agency staff, further measures will be required to deliver a balanced budget position in 2020/21 and these will be reported to the Council's Executive Board and Full Council in December and January respectively.
● High	**Related Parties** The Council has only disclosed related parties in respect of senior officers using information from last year, 2018/19, as the normal returns expected in January and February 2020 have not been collated as a result of Covid-19.	All related parties should be fully disclosed based on current information. The Council should ensure related parties in respect of senior officers is fully disclosed within the 2019/20 financial statements. **Management response** Related party disclosures for the Council's draft accounts were produced using the most up-to-date register of interests for senior officers that was available. The register of interests is being updated and the disclosure will be reviewed for the final accounts.
● High	**Financial Position** The impact of Covid-19 has had a significant impact on the Council's financial position. The Council currently has a financial gap of £30.5m for 2020/21 and a remaining gap of £78m with £60m of proposals being developed for 2021/22. The Council is taking a range of actions to address the additional costs of Covid-19 and eliminate the remaining financial gaps for both 2020/21 and 2021/22. Without robust action to eliminate the remaining financial gaps in both years, there is a risk that the Council will be in a deficit position. Any deterioration in the Council's financial position for 2020/21 or planned position for 2021/22, could lead to us exercising our additional statutory powers in respect of written recommendations.	There is a need for the Council to: • continue to routinely monitor its financial position for 2020/21 and take remedial action for any slippage to the delivery of savings or additional expenditure identified • ensure all actions are taken to eliminate the current £30.5m financial gap and deliver a balanced outturn position for 2020/21 • set an achievable, robust and realistic budget for 2021/22 which can be delivered with worked up savings plans and schemes that can be individually reviewed and monitored to deliver an outturn balanced position • meet regularly with us through monthly meetings (with the Chief Finance Officer) to consider the actions being planned, taken and delivered to achieve savings in both 2020/21 and 2021/22 and to monitor the Council's financial position for both years and its MTFS. **Management response** We accept these recommendations and welcome the regular liaison to monitor the Council's financial position for both 2020/21 and 2021/22.

Appendix B: Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2018-19 financial statements, which resulted in two recommendations being reported in our 2018-19 Audit Findings (ISA260) Report. We have reviewed the actions taken by the Council and have set out our findings below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Valuation of land and buildings** The Council moved its valuation date from 1 April to 30 September in 2018-19. This has required an estimate at the year end to ensure there has not been a material change in asset values. There is a risk that asset values are not correctly valued in the financial statements. We recommended 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.	The Council's policy of using a valuation date of 30th September was established to ensure that it was 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 30 September and 31 March and do not consider a change to the valuation date of 31 March is necessary. We have raised this recommendation again in the Action Plan for 2019-20.
Partial	**Future level of useable reserves:** 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. We recommended there was a need for the Council to consider the adequacy of its reserves.	Management agreed, in the context of both the financial projections and financial risks reflected in the Council's Medium Term Financial Strategy, to annually review its strategy to ensure that it retains an appropriate level of balances within its general reserve. Whilst the Chief Finance Officer reviewed the level of available reserves during 2019-20 which have increased marginally, the impact of Covid-19 has significantly impacted on the Council's financial standing. There are insufficient general fund reserves to meet the additional costs of Covid-19 of £30.5m in 2020-21. In addition, given the demands on Council finances resulting from Covid-19, the level of useable reserves are unlikely to increase during the current MTFS. We have repeated our recommendation at Appendix A.

Assessment:

✓ Action completed

X Not yet addressed

Appendix C: Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on Useable Reserves £'000
Pension Assets - AON Hewitt (the actuary) identified an error in the asset return calculations used for the overall WYPF fund asset figures.			
Increase to the value of pension assets by £21.597m.	(21,597)	21,597	-
£60m of Short Term Investments to be classified as Cash Equivalents.			
Short Term Investments	-	(60,000)	
Cash Equivalents	-	60,000	-
Pension Liabilities - The estimated impact of the Goodwin judgement totals -£9.731m at 31 March 2020 and has not been adjusted in the financial statements.	9,731	(9,731)	
Increase to the value of pension liabilities of £9.731m.			
Overall impact:	**(11,866)**	**11,866**	**None**

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Credit Risk – Note 18.4	The prior year figures don't match the prior year accounts and need updating.	The prior year figures in Note 18.4 need updating to match the prior year accounts. **Management response** The differences relate to which classes of asset are included in the disclosure, rather than changes to the figures. Reverting to the 18/19 inclusion would give misleading comparators. We will consider additional disclosure to explain this.	X
Housing Revenue Account PPE - Note 5.1	The HRA PPE Note 5.1 prior year cost and accumulated depreciation for council dwellings and other land/buildings figures do not agree to the prior year accounts.	The prior year figures in HRA Note 5.1 need updating to match the prior year accounts. **Management response** Noted. Amended in final accounts.	✓

Appendix C: Audit adjustments

Misclassification and disclosure changes continued

Disclosure omission	Detail	Auditor recommendations	Adjusted?
PFI liabilities – Note 11	The fair value for PFI schemes has not been included as required.	The fair value for PFI liabilities should be disclosed within the accounts. **Management response** The Council is of the view that carrying value represents the best estimate of fair value.	X
Financial Instruments – Note 18	Cash and Cash equivalents have not been included as Financial Instruments.	Cash and Cash equivalents should be included as Financial Instruments. **Management response** Noted. Amended in final accounts.	✓
Contents page	The headings in the contents page don't agree exactly to the section headings, for example, the contents page shows Foreword rather than Narrative Foreword, Accounting Concept and Policies rather than Statement of Accounting Concepts and Policies.	The headings shown on the contents page should agree to the headings included within the financial statements. **Management response** Noted. Amended in final accounts.	✓
The Council's Group – Note 24	The Council does not produce group accounts but is involved with a number of entities. The accounts disclosure would benefit by showing the entities Leeds City Council controls and does not consolidate in to its accounts. This should include some high level financial information to aid the reader, for example, the main financial information for each of the Council's subsidiaries and associate companies.	The accounts disclosure should be expanded to include the entities Leeds City Council controls and does not consolidate in to its accounts, including high level financial information. **Management response** The disclosure already identifies the relevant entities that are not consolidated, and the fact that they are not material to the council's financial position.	X
Page xii – 7 Current accounting practice and new developments	Disclosure has been made relating to the delay in implementing IFRS16. This should be expanded to include the Council is still working on the impact of this standard on the Council's accounts in preparation for 2021-22.	The IFRS16 disclosure should be expanded to refer to the Council still working on the impact of this standard in preparation for 2021/22. **Management response** The Foreword is not the appropriate place for discussion of the potential impact, there is a separate disclosure note in the main accounts.	X

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019-20 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

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

Appendix D: Fees

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

Audit fees	Proposed fee per Audit Plan £	Final fee £
Council Audit	198,954	TBC+
Total audit fees (excluding VAT)	**198,954**	**TBC+**

+ To confirm additional audit fees in relation to the extra work performed in agreeing the accounts to the ledger, considering 13 PFI schemes, reviewing the work of five valuers and our work on pensions, PPE balances and Merrion House accounting. In addition, over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.
- Management's assumptions and estimates - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions. We are including an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values.
- Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. For the Leeds City Council audit, we have undertaken significant additional work in this area given the major impact of Covid-19 on the Council's financial position as detailed in Section 3 of this report. This work has been completed at a senior level within the audit team and other senior colleagues within the Firm. This has increased the amount of work that we undertook on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260.
- Remote working – we, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the availability and quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

As a result of the above, increased costs have been incurred due to the additional time taken to deliver the audit this year. We have discussed the likelihood of an additional fee variation with the Chief Finance Officer, noting an expected variation of c20% of the above fee. We will provide a full breakdown of proposed fees on completion of our audit and this will be included in the Annual Audit Letter later this year. Please note that any proposed additional fees would be subject to approval by PSAA in line with the Terms of Appointment.

Appendix D: Fees continued

Total audit fees do not currently reconcile to the financial statements as follows:

	Per Accounts:	***To be corrected to***:
Total fees per financial statements (Note 12.5)		
General Audit	£199k	£199k
Other Services	£1k	£17.5k (Relating to CFO Insights – see below)
TOTAL Audit fees 2019-20	**£200k**	**£216.5k**

Non-audit fees for other services	Proposed fee £	Final fee £
Audit Related Services:		
NONE	-	-
Non-Audit Related Services:		
CFO Insights	17,500	17,500
Total non- audit fees (excluding VAT)	**17,500**	**17,500**

Appendix E: Draft Audit Opinion

We anticipate we will provide {TO BE CONFIRMED} an unqualified accounts audit report with an Emphasis of Matter paragraph, relating to the material uncertainty around the valuation of land and buildings as a direct impact of Covid-19. We anticipate issuing an 'except for' value for money conclusion relating to the Council's level of reserves and the impact of Covid-19 {to be confirmed}.

TO BE CONFIRMED

Audit opinion

TO BE CONFIRMED

Appendix F: Management letter of representation (draft)

LETTER TO BE PRINTED ON CLIENT HEADED PAPER

Our ref:
Your ref: PSS

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

14 December 2020

Dear Sirs

Leeds City Council
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Leeds City Council for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the Council's financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the Council's financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

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

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the Council's financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Council has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year. The financial statements are free of material misstatements, including omissions.

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

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

xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic from whom you determined it necessary to obtain audit evidence.

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

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

xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

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

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Council's Corporate Governance and Audit Committee at its meeting on 14 December 2020.

Yours faithfully

Name……

Position……

Date……

Name……

Position……

Date……

Signed on behalf of the Council