The Annual Audit Letter for Leeds City Council

Year ended 31 March 2020

19 April 2021

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1. Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Leeds City Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Corporate Governance and Audit Committee as those charged with governance in our Audit Findings (ISA260) Report on 23 November 2020 and 8 February 2021.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £26,852k which was 1.3% of the Council's gross revenue expenditure.
Financial Statements opinion	We issued an unqualified opinion on the Council's financial statements on 16 March 2021. We included an emphasis of matter paragraph in our report in respect of the uncertainty relating to the valuation of land and buildings and investment properties, as well as uncertainty in respect of some valuations of private equity and pooled property funds as a result of the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We are currently completing work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	Our Audit Findings Report last year identified the low level of Council reserves and recommended these be reviewed. Whilst the Council took action and started to increase its reserves, these had not been sufficiently built up when the Council went into the Covid-19 pandemic. 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. We therefore issued a qualified 'except for' value for money conclusion. Except for this matter, the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Further information on our VFM work is detailed from page 11.
Certificate	We are currently unable to certify that we have completed the audit of the financial statements of Leeds City Council. This is because we have yet to complete work on the Council's Whole of Government Accounts consolidation return. Once this is completed, we will be able to certify that we have completed the audit of the Council's financial statements in accordance with the requirements of the Code of Audit Practice.

Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council, both operationally and in preparing the financial statements. 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, face to face meetings have been replaced by telephone and video conferencing arrangements which has also extended to Council Committee meetings including the Corporate Governance and Audit Committee.

This is our second year of audit at Leeds City Council and we believe we have continued to develop professional working relationships with your officers.

We have held regular liaison meetings with the Section 151 Officer and her senior finance team, particularly since the start of the pandemic, to understand the financial and operational impact on the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

Grant Thornton UK LLP
April 2021

2. Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £26,852k, which is 1.3% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration.

We set a lower threshold of £1,074k, above which we reported errors to the Corporate Governance and Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our Audit Plan Addendum	How we responded to the risk	Findings and conclusions
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 audit work we have: • 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 paragraph, relating to the material uncertainty around the valuation of land and buildings and investment properties as a direct impact of Covid-19 as reported by the Council's valuers, and the material uncertainty in respect of some valuations of level 3 private equity and pooled property funds identified by the West Yorkshire Pension Fund auditor as result of Covid-19. This change to our opinion is a direct result of the impact of Covid-19 and is consistent across our local authority audits.

Audit of the Financial Statements

Significant Audit Risks continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
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.	As part of our work we: • 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.	There were no issues arising from our work which we needed to bring to your attention.

Audit of the Financial Statements

Significant Audit Risks continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
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.	The Council uses five specialist valuers. Our audit work did not identify any issues in respect of the valuation of land and buildings except for the following matter. Three of the valuation reports included a material valuation uncertainty paragraph as a result of Covid-19 as well as being reported in the Council's financial statements. We considered 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.

Audit of the Financial Statements

Significant Audit Risks continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions

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.
		The following key issues arose from our audit work on the Council's pension fund liability:
		• 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 was is to increase the value of pension assets by £21.6m. The Council adjusted the accounts for this issue
		• 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 confirmed:
		    • the impact of the McCloud judgement had been included in the pension fund net liability at 31 March 2020
		    • the impact of the Goodwin judgement totalled -£9.73m. This issue arose after the Council had prepared its draft accounts. The Council adjusted for this amount.
		• the West Yorkshire Pension Fund auditor identified that some investments within Level 2 of the Fair Value hierarchy should have been classified as Level 3. As a result, they identified a difference for Level 3 private equity investments of £69.1m. The Council added a note to its accounts to explain this difference
		• the West Yorkshire Pension Fund audit opinion for 2019-20 included a material uncertainty paragraph relating to Covid-19 in respect of some valuations of level 3 private equity and pooled property funds. These were disclosed in the Council's accounts and we also included as a material uncertainty in our audit report.

Audit of the Financial Statements

Audit opinion

We issued an unqualified opinion on the Council's financial statements on 16 March 2021.

Preparation of the financial statements

The outbreak of the Covid-19 coronavirus pandemic had a significant impact on the accounts preparation and audit process. Restrictions for non-essential travel meant both Council and audit staff had to work remotely, including remotely accessing working papers and financial systems. In addition, face to face meetings were replaced by telephone and video conferencing arrangements.

The Council presented us with draft financial statements in accordance with the agreed deadline. The provision of accounts working papers was initially delayed as a suitable platform to provide these was not available. There were some undoubted challenges arising from delivering the year-end audit in a wholly remote fashion, with both finance colleagues and members of the 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. We have held discussions with the Chief Finance Officer after issuing our audit opinion on the 2019/20 financial statements to consider opportunities to improve the audit process and working papers for 2020/21.

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.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Corporate Governance and Audit Committee on 23 November 2020 and 8 February 2021.

In addition to the key audit risks reported previously, we 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 should correctly be classified as Cash Equivalents
- Grants Receipts in Advance – initially included in Creditors but should properly be disclosed separately as Grant Receipts in Advance (£25.4m)
- Merrion House – an adjustment to recognise the receipt of 50% of the advance rental prepayment for Merrion House (£27.33m) as a return of capital, rather than as deferred income (or income) and reducing the fair value of the Council's holding in the LLP in the 2019-20 accounts (to £8.45m). A Prior Period Adjustment (PPA) was also required to correctly account for the advance rental prepayment received in 2018-19. This adjustment recognises the receipt of the advance rental prepayment as a return of capital to the Council.

The Council processed all the adjustments identified. Except for Merrion House, none of the adjustments impacted on the Council's Useable Reserves position. The key impact of the Merrion House adjustment was to reduce deferred income by £27.33m and increase the Council's Useable Capital Receipts by the same amount in 2018-19.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We are currently undertaking work in line with instructions provided by the NAO. Once this work is complete, we expect to issue an assurance statement for the group auditor.

Certificate of closure of the audit

We are unable to certify at this time that we have completed the audit of the financial statements of Leeds City Council. This is because we have yet to complete work on the Council's Whole of Government Accounts consolidation return. Once completed, we will be able to certify that we have completed the audit of the Council's financial statements in accordance with the requirements of the Code of Audit Practice.

3. Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in November 2020 and February 2021, we agreed three recommendation to address our findings.

Overall Value for Money conclusion

We issued a qualified ‘except for’ value for money conclusion because our work identified 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

Value for Money conclusion

Value for Money Risks

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions (as reported in our Audit Findings Report (ISA 260) – February 2021)
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.	As part of our work we: • reviewed key financial and operational documents • continued to monitor the Authority's financial position through regular meetings with senior management • considered how the Authority manages overspends within Children's Services and the impact of delayed capital receipts • continued 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.	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 indicated 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 was most significant in the current year, 2020-21 with additional costs of £30.5m and next year, 2021-22 where the budget shortfall was 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. 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 amounted 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.

Value for Money conclusion

Value for Money Risks continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions (as reported in our Audit Findings Report (ISA 260) – February 2021)
Financial Standing continued		We understand from the November 2020 Executive Board Report, that if support was not agreed with MHCLG by the end of November, the Council would bring forward budget proposals to balance the budget for 2020-21 in December 2020. We understand the Chief Finance Officer did not consider a S114 Notice under the Local Government Finance Act 1988 (where expenditure of the authority is likely to exceed the resources available) would 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 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. **Conclusion** 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 issued a qualified 'except for' value for money conclusion.

Value for Money conclusion

Value for Money Risks continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions (as reported in our Audit Findings Report (ISA 260) – February 2021)
Financial Standing continued		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 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 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. We reported that 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.

Value for Money conclusion

Value for Money Risks continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions (as reported in our Audit Findings Report (ISA 260) – February 2021)
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 considered the Authority's on-going arrangements and plans to mitigate any risks on Brexit.	As part of our work we: • reviewed key financial and operational documents • discussed key relevant matters with senior management.	On 23rd June 2016, the UK voted to leave the European Union. Article 50 was triggered on 29th 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 were agreeing their future relationship during the transition period, which began immediately after the UK left the EU and ended on 31 December 2020. During this 11-month period, the UK continued to follow all of the EU's rules and its trading relationship remained 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.

Value for Money conclusion

Value for Money Risks continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions (as reported in our Audit Findings Report (ISA 260) – February 2021)
Brexit continued		**Conclusion** 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 continued to monitor developments and liaise with its partners to ensure it remained 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.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	January 2020
Audit Plan Addendum	April 2020
Audit Findings (ISA260) Report	November 2020 and updated January 2021
Annual Audit Letter	April 2021

Fees 2019-20

	2019-20 Planned fee £	2019-20 Actual fees £	2018-19 Actual fees £	2017-18 Actual fees (KPMG) £
PSAA scale fee	178,604	178,604	178,604	231,953
Audit fee variations	*20,350	**59,750	9,000	-
Total proposed fees	**198,954**	**238,354**	**187,604**	**231,953**

Audit fee variation

As outlined in our Audit Plan, the 2019-20 scale fee published by PSAA of £178,604 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. This was reported in our Audit Plan dated 9 January 2020. We also highlighted in the ISA260 Report in November and January that we anticipated a further fee variation of c20% upon completion of our audit. We have now updated our fee variation to reflect the actual outturn as summarised in the following table.

Fee variations are subject to PSAA approval.

Area	Reason	Planned variation £	Actual variation £
Pensions – IAS 19	The Financial Reporting Council has highlighted that the depth of work by audit firms in respect of IAS 19 needs to be enhanced across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	3,500	10,000
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the depth of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this including the use of a valuation expert.	9,350	15,000
Increased challenge and depth of work	To meet the higher threshold set by the FRC, we have undertaken additional work and challenge in the following areas, including: • information provided by the entity (IPE) • journals • management review of controls • accounting estimates • going concern • related parties and similar areas.	5,000	7,500
New standards and developments	This includes preparations for IFRS16, new lease arrangements and other developments. The additional work undertaken was less than expected given IFRS16 was deferred.	2,500	1,500
Covid-19	Additional staffing costs associated with the impact of Covid-19 amounted to some £10,000 but we have absorbed 80% of this and propose an additional £2,000.	-	2,000
Additional accounts audit inputs	Additional work required in a number of areas including agreeing the draft accounts to the Council's ageing FMS system; resolving queries relating to the Council's PFI schemes; resolving accounting queries relating to Merrion House (including a prior period adjustment); resolving issues relating to the Headingley lease in respect of the cricket and rugby clubs.	-	10,000
Additional VFM inputs	Increased VFM work reviewing the Council's financial standing given the significant impact of Covid-19 and the pressures to balance the budget for 2020-21 and 2021-22. This includes senior input from the engagement lead, senior manager and review partner as well as review by the Firm's VFM National Consistency Panel. This work remains on-going and will continue into the 2020-21 audit.	-	13,750
Overall fee variation		***20,350**	****59,750**

A. Reports issued and fees continued

***Audit fee variation**

Our Audit Plan included a fee variation for £20,350 to take into account the additional audit work to be performed in relation to PPE, pensions and key areas of estimate and judgement. Over the past year 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. We included an Emphasis of Matter in the Audit Report in respect of the material uncertainty around the valuation of land and buildings and investment properties as a direct impact of Covid-19 as reported by the Council's valuers, and the material uncertainty in respect of some valuations of level 3 private equity and pooled property funds identified by the West Yorkshire Pension Fund auditor as result of Covid-19.
- Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. This has been particularly more so at Leeds City Council given the significant impact of Covid-19 and the pressures to balance the budget for 2020-21 and 2021-22.

We have been discussing this issue with PSAA over recent 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 also being extended by 4 months and NHS deadlines 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 and agreed the additional fee variation with the Chief Finance Officer, noting the expected variation of 20% of the above planned fee, taking the proposed fee to £238,354. Please note that all proposed additional fee variations are subject to approval by PSAA in line with the Terms of Appointment.

Fees for non-audit services

Service	Fees £
Audit related services:	
- None	-
Non-Audit related services:	
- CFO Insights	17,500

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 table alongside summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

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