

The Audit Findings (ISA260) Report for Leeds City Council

Year ended 31 March 2021

31 January 2022

**WORKING DRAFT FOR
DISCUSSION**



Contents



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This Audit Findings (ISA260) 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. Its contents will be discussed with management and the Corporate Governance and Audit Committee.

Gareth D Mills

Name : Gareth Mills, Engagement Lead for Leeds MBC

For Grant Thornton UK LLP

Date : 31 January 2022

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Leeds City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

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 year-end audit work commenced during September 2021 and currently remains ongoing. Our findings to date are summarised in Section Two of this report. As at the date of this report, we have not identified any audit adjustments impacting on the Council's outturn position and useable reserves, however, we identified two adjustments impacting on the Council's Balance Sheet:

1. PPE valuations – the valuation of a number of other land and building assets in the financial statements have been overstated within the rolling programme of valuations (£2.1m) resulting from a clerical error, and the Temple Green Park and Ride scheme (£16.4m) which incorrectly included the land value twice and used the wrong building costs in valuation
2. Net Pension liability – management are awaiting details of two adjustments to the net pension liability from the West Yorkshire Pension Fund. The first adjustment relates to an increase in asset revaluations estimated to be some £32.5m, whilst the second is in respect of an increase in liabilities following the recalculation of early retirements, and estimated at £16.1m. Both figures are estimates only provided by management and may differ on receipt of the actual confirmation.

Management is adjusting its financial statements for these areas. Our work also identified a number of disclosure and presentational audit adjustments which are detailed at Appendix C. We have raised four audit recommendations for management as a result of our work in the Action Plan at Appendix A. Our follow up of recommendations from the prior year are detailed at Appendix B.

Our work is nearing completion in advance of our expected sign off date in late February. At present, there are no matters of which we are aware that would require modification of our proposed audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters:

- completing the remaining elements of our work on PPE, pension fund assets and liabilities, payables and receivables, payroll costs, journals, grant income and operating expenditure
- agreeing the draft financial statements and opening balances to the Council's Financial Management Ledger System (FMS)
- receipt of the updated IAS 19 report
- completion of our internal quality review processes, including final reviews of the file by the engagement manager, engagement lead and review partner, specifically in respect of significant audit risks of PPE valuation, pension fund liability and journals testing

1. Headlines - continued

Financial Statements

- reviewing the final version of the financial statements, Narrative Report and Annual Governance Statement
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.

We have concluded that the other information to be published together with the audited financial statements is consistent with our knowledge of the Council and the financial statements we have audited, subject to satisfactory completion of our review of the final Narrative Report and AGS.

We plan to issue an unqualified (clean) audit opinion.

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness
- Financial sustainability
- Governance.

We have not yet completed all of our VFM work and are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was sent to the Chair of the Corporate Governance and Audit Committee in September and is attached at Appendix F to this report. As our audit work remains on-going, we now expect to issue our Auditor's Annual Report before the end of March 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report (AAR) to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our initial planning work identified no significant VFM weaknesses in the Authority's arrangements except for the Council's overall financial position as a result of the financial challenges exacerbated by the Covid-19 pandemic. This risk follows on from the 2019-20 qualified 'except for' value for money conclusion we issued last year. We will summarise the findings from our VFM work in our Auditor's Annual Report.

1. Headlines - continued

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 expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, and our review of the Council's Whole of Government Accounts (WGA) submission. We expect to conclude our work in these two areas and be in a position to issue our audit certificate by the end of March 2022.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and collaboration provided by the finance team and other staff during our audit which was again conducted in challenging circumstances and remotely, as in the prior year.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings (ISA260) 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 will be discussed with management and the Corporate Governance and Audit Committee (as those charged with governance).

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

Audit approach

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

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

Conclusion

We have substantially progressed our audit of your financial statements and subject to the completion of the remaining work and outstanding queries being resolved, we anticipate issuing an unqualified (clean) audit opinion in late February 2022. These outstanding items include:

- completing the remaining elements of our work on PPE, pension fund assets and liabilities, payables and receivables, payroll costs, journals, grant income and operating expenditure
- agreeing the draft financial statements and opening balances to the Council's Financial Management Ledger System (FMS)
- receipt of the updated IAS 19 report
- completion of our internal quality review processes, including final reviews of the file by the engagement manager, engagement lead and review partner, specifically in respect of significant audit risks of PPE valuation, pension fund liability and journals testing
- reviewing the final version of the financial statements, Narrative Report and Annual Governance Statement
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.



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 dated 21 July 2021.

We detail in the table our determination of materiality for the Council.

Materiality area	Amount (£000)	Qualitative factors considered
Materiality for the financial statements	27,202	We have determined materiality at 1.3% of gross operating expenditure for the year. We consider this as the most appropriate criteria given stakeholders interest in the Council delivering its budget. There are no changes to this threshold or benchmark to that set out in our Audit Plan dated 21 July 2021.
Performance materiality	19,041	Assessed to be 70% of financial statement materiality.
Trivial matters	1,360	This equates to 5% of materiality. This is our reporting threshold to the Corporate Governance and Audit Committee for any errors identified.
Materiality for senior officer remuneration disclosures	25	The senior officer remuneration disclosures in the Financial Statements have been identified as an area requiring specific materiality due to its sensitive nature. There are no changes to this threshold from our Audit Plan dated 21 July 2021.



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Commentary

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override 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 audit work, 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 as relevant

Our work in this area remains on-going including testing a sample of journals processed. Our audit work to date has not identified any issues in respect of management override of controls. We will provide a verbal update to the Corporate Governance and Audit Committee on 4 February should any significant issues arise from completing our work in this area.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Risk of fraud in revenue recognition and expenditure

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.

Expenditure

Whilst not a presumed significant risk we have had regard to Practice Note 10 (Audit of financial statements and regularity of public sector bodies in the United Kingdom). Having considered the nature of the expenditure streams at the Council, we have determined that the risk of fraud arising from expenditure recognition can be rebutted, because:

- there is little incentive to manipulate expenditure for a Council where services are provided to the public through taxpayers funds
- Covid -19 funding has been provided for additional expenditure and loss of income during 2020-21.

Commentary

Notwithstanding that we have rebutted these risks we have undertaken a significant level of work on the Council's revenue streams, as they are material to the financial statements audit.

As part of our audit work, we have:

Accounting policies and systems

- Evaluated the Council's accounting policies for recognition of income and expenditure for its material income and expenditure streams and compliance with CIPFA Code
- Updated our understanding of the Council's business processes associated with accounting for income and expenditure.

Fees, Charges and other service income

- Agreed, on a sample basis, income and year end receivables from other income to supporting evidence.

Taxation and non specific grant income

- Income for national non-domestic rates (NDR) and council tax is predictable and therefore we conducted substantive analytical procedures. We have also obtained sufficient assurances on NDR relief for 2020-21
- For other grants, sample tested items for supporting evidence and checked the appropriateness of the accounting treatment is in line with the CIPFA Code. Please see further reporting at page 21.

Expenditure

- Agreed, on a sample basis, non-pay expenditure, interest payable and year-end payables through to supporting evidence
- Undertaken detailed substantive analytical procedures on pay expenditure
- Reviewed a sample of after date payments for the completeness of accruals and creditors.

We also carried out sufficient and appropriate audit procedures to ascertain that recognition of income and expenditure was in the correct accounting period using cut off testing.

Whilst our audit work remains on-going, to date, no issues have arisen from our work except for:

- Housing Revenue Account – the dwelling rents figures included in the draft accounts is £1.3m greater than the Orchard rent system as a result of a manual year end journal not being processed at the year end to move these items to the correct non-dwelling rents code. As a result, dwelling rents are overstated by £1.3m and non-dwelling rents understated by the same amount. Management has agreed to correct this error in the final accounts.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

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 c£5 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 closing valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

As part of our audit work, we have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to management's valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation experts
- discussed and challenged the valuers the basis on which the valuations were carried out
- challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding
- engaged our own auditor's expert valuer to assess the instructions issued to the Council's valuers, the Council's valuers' reports and the assumptions that underpin the valuation
- tested revaluations made during the year to check if they had been input correctly into the Council's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end
- evaluated, where the valuation date is not 31 March 2021 for assets valued in year, the arrangements management has used to ensure the valuation remains materially appropriate as at 31 March 2021. Management has moved the valuation date from 30 September to 1 January during 2020-21.

Our audit work to date has identified two adjustments relating to the valuation of land and buildings:

- Other land and building valuations – our detailed testing of a random sample of rolling valuations identified two errors totalling £0.9m overstating the valuations included within the Council's Fixed Asset Register (FAR) and draft accounts. This was due to a clerical error when the valuations were entered onto the valuation spreadsheet and has effectively double counted the land value within the total valuation. Management has reviewed the remaining valuations and identified an additional seven assets on the rolling programme where the same error has occurred. In total, other land and building are overstated by £2.1m.
- Temple Green Park and Ride – our review of this valuation identified that the land in Phase 1 of the development had been included incorrectly in the building valuation of phase 2 resulting in the valuation being overstated. In addition, the wrong building costs had been used resulting in an overall valuation error of £16.4m. Given the complex nature of this asset and its valuation approach being quite different to other assets, this error has been assessed as a one off error given its unique situation.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings continued

Management has agreed to adjust the financial statements to reflect both these errors which arose following audit challenge. There is a need for management to more effectively review the valuations provided by its valuation experts to ensure the valuation is appropriate and supported by the data used for valuations. We have raised a **Recommendation** in this regard in the Action Plan at Appendix A.

Our audit work has noted the use by the Council's valuers of material uncertainty limitations on general fund assets (including Investment properties and Land and Buildings). We have challenged management on the use of material uncertainty limitations as we consider these are no longer necessary for the 2020/21 financial statements given updated guidance provided by the Royal Institute of Chartered Surveyors (RICS). Our auditors expert valuer has also confirmed this approach. Management do not consider the material uncertainty limitations included in valuations should be removed.

On the basis that we do not consider material valuation uncertainty limitations are necessary for the 2020/21 financial statements, we will not be drawing attention to these in our audit opinion – there will be no 'emphasis of matter' paragraph in our 2020-21 audit opinion.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of investment properties

The Council re-values its major investment properties each year. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (some £108m at 31.3.2020) and the sensitivity of this estimate to changes in key assumptions.

We therefore identified the closing balance of investment properties as a significant risk, which was one of the most significant assessed risks of material misstatement.

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 including the use of market rental information
- challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding
- engaged our own auditor's expert valuer to assess the instructions issued to the Authority's valuers, the Authority's valuers' reports and the assumptions that underpin the valuations
- 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 has satisfied themselves that these are not materially different to current value at year end
- considered, where the valuation date is not 31 March 2021 for assets valued in year, the arrangements management has used to ensure the valuation remains materially appropriate at 31 March 2021. Management has moved the valuation date from 30 September to 1 January during 2020-21.

Whilst our audit work remains on-going, to date, no issues have arisen in relation to investment properties, except as already noted in the previous slide, the use by the Council's valuers of material uncertainty limitations on investment properties which we consider are no longer necessary for the 2020-21 financial statements.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of the 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 (some £1.7 billion as at 31.3.2020) in the Authority's balance sheet and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of Practice for Local Government Accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the net pension liability estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated pension fund net liability.

We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

As part of our audit work, we have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate 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 Council's pension fund valuation
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary
- performed 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
- obtained assurances from the auditor of the West Yorkshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements
- considered whether asset valuations are based on 31 March 2021
- as part of our additional audit challenge and understanding of the net pension fund liability valuation, we may request to meet with the Pension Fund actuary.

Our audit work remains on-going, and to date, we have not identified any issues to be reported to the Corporate Governance and Audit Committee except the following:

- Net Pension liability – management are awaiting details of two adjustments to the net pension liability from the West Yorkshire Pension Fund. The first adjustment relates to an increase in asset revaluations estimated to be some £32.5m, whilst the second is in respect of an increase in liabilities following the recalculation of early retirements, and estimated at £16.1m. Both figures are estimates only provided by management and may differ on receipt of the actual confirmation.

2. Key findings arising - Group audit

In accordance with ISA (UK) 600, we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The Council does not currently prepare group accounts. However, the Council is involved with a number of group entities including three subsidiary companies but has decided not to prepare group accounts for 2020-21 on the basis they are not considered material to the Council's overall financial position.

As part of our audit work, we are currently reviewing the assessment undertaken by management to determine if group accounts should be prepared and consider whether group accounts are required for 2020-21. The Authority's assessment has concluded group accounts are not required for 2020-21.

The draft financial statements, Note 24 The Council's Group notes that the Council has a small number of group entities, but as at 31 March 2021 none of these were material to the Council's financial position, and therefore the Council does not produce group accounts.

In last year's Audit Findings Report, we recommended within the audit adjustments table that the accounts disclosure would benefit by showing the entities Leeds City Council controls and does not consolidate in to its accounts, including 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. Whilst the Council has expanded the narrative disclosure, we consider this can be developed further to include for example, a table summarising gross income, gross expenditure, surplus / deficit as well as gross assets and gross liabilities for each entity. We have raised a recommendation in this regard.

2. Financial Statements – new issues and risks

Issue

Auditor commentary and view

IFRS 16 implementation

Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2020-21 accounts to comply with the requirement of IAS 8 para 31. As a minimum, we expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.

The Council has included a high level reference to IFRS16 in its accounts at Note 7, Current accounting practice and new developments.

The minimum requirements of IAS8 have been met. Management and the audit team will liaise during the 2021-22 audit to ensure the requirements of the new standard are being followed and plans are in place for this issue to be adequately reported in the 2021-22 accounts and fully adopted in the 2022-23 accounts.

Recognition and Presentation of Grant Income

The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal or agent and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income.

The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income.

Note 8 to the accounts analyses the grants included within the General Government Grants figure in the Comprehensive Income and Expenditure Account. These are grants which do not relate to any specific service. The analysis also gives the value of government grants included in each individual service line within the Net cost of services section of the Comprehensive Income and Expenditure Account

Our audit testing of grant income remains on-going and to date, has not identified any non-compliance with the requirements for grant accounting as specified in the Code. Our work involved reviewing the Council's treatment of Covid-19 related grants as either agent (where the Council passes on the grant without having control over its award) or principal (where the Council determines the grant award to be provided). Grant awards where the Council is acting as principal are recorded within the Council's CIES whereas grants where the Council has acted as agent are not. Our audit work is also reviewing the appropriateness of the disclosures made and sample testing of a number of grants, no issues have arisen from our work to date.

IT General Controls (ITGC) work

As part of our audit procedures on the financial statements, we conducted our ITGC work. This was targeted on general IT controls and was performed by our IT specialists. The objective was to identify any significant deficiencies in IT general controls that could lead to any material errors in the financial statements.

Work undertaken by our specialist IT audit team reviewing the Council's IT General Controls identified a number of weaknesses relating to the SAP payroll system and the Council's FMS system. Key recommendations made related to:

- SAP Payroll – our work identified 18 user accounts with inappropriate DEBUG access allowing users to by-pass most controls in SAP. We recommended Debug access should not be permanently granted in the production environment and existing user accounts reviewed and debugging access removed
- SAP Payroll – we noted segregation of duty conflicts within the SAP system with 5 user-IDs assigned with developer access who could potentially change the source code in production. We also identified 4 user accounts with conflicting access combinations that could be used to make changes to the production environment. We recommended user accounts should be reviewed and appropriate segregation of duties introduced, in addition, developer access keys should not be given to users.

2. Financial Statements – new issues and risks

Issue

Auditor commentary and view

IT General Controls (ITGC) work continued

- FMS – we noted inadequate control over generic accounts within the FMS database and Capita (Academy) application. While the system was configured to record failed logins, the following generic accounts were not monitored for suspicious activity: two generic FMS database administrator user accounts “SYS” and “SYSTEM”; and the generic Capita(Academy) administrator user account “Database Admin”. Additionally, we noted no password reset controls were configured on these user accounts to enforce the periodic change of passwords. We recommended where possible, generic accounts should be removed, and individuals should have their own uniquely identifiable user accounts created to ensure accountability for actions performed
- FMS – we identified a lack of review of information security/audit logs in FMS and Capita (Academy). Information security event logs, which capture the monitoring of activities such as failed logins and use of privileged user accounts within Capita(Academy) and FMS are not reviewed. We recommended that security event logs are reviewed on a regular basis (for example daily or weekly) by IT security personnel who are independent of those administering FMS & Capita(Academy) and its underlying database

Our IT findings were issued to management on 29 November 2021 and we are awaiting management responses to some recommendations. We will follow up progress as part of our 2021-22 audit programme (further details are noted at Appendix A).

2. Key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Auditor Comments	Assessment
<p>Council Dwellings valuation: £2.2 billion</p>	<p>The Council is required to revalue its Council housing in accordance with Department of Levelling up Housing and Communities (DLUHC) Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties.</p> <p>The Council engaged its in-house valuer to complete the valuation of these properties. The valuation was at 1 January 2021 and valued Council Housing at £2,211m, a net increase of £10m from 2019-20 (£2,201m).</p>	<ul style="list-style-type: none"> The Council's valuer is RICS qualified and valued the entire housing stock using the beacon methodology, in which a detailed valuation of representative property types was then applied to similar properties Our work indicated that this methodology was applied correctly to the 2020-21 valuation We have assessed the valuer to be competent, capable and objective in carrying out the valuations 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 We have agreed the HRA valuation report to the accounts We have compared the valuation movements with the Gerald Eve (property valuation specialists) national report and held discussions with our own valuation auditor's expert. We have also challenged management and the Council's valuation expert on valuation differences identified through our sensitivity analysis work using other relevant indices. These discussions remain on-going and we intend make our conclusions before we issue the audit opinion. <p>Whilst our audit work in this area remains on-going, there are no other issues arising at this time that we wish to bring to the attention of management or the Corporate Governance and Audit Committee.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious (light purple) TBC</p>

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Auditor Comments	Assessment
<p>Other Land and Buildings valuation: £2.5 billion</p>	<p>Other land and buildings comprises £2,134m of specialised assets such as schools and libraries as well as the PFI Recycling and Energy Recovery Facility, 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.</p> <p>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 1 January 2021 with two external valuers valuing the Waste to Energy Plant. Approximately 88% of total assets (by value) were revalued during 2020-21.</p> <p>Management has also considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 31 March 2021, to determine whether there has been a material change in the total value of these properties.</p> <p>The total year end valuation of Other land and buildings was £2,541m.</p>	<ul style="list-style-type: none"> 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 valuer used to determine the estimate, including floor areas and have no issues to report The valuation methods remain consistent with the prior year. Whilst we recognise the progress made by the Council in moving its valuation date from 30 September in 2019 to 1 January in 2021, 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. In relation to assets not revalued in the year, we have compared the Gerald Eve (valuation specialists) property valuation report and held discussions with our own valuation auditor's expert. These discussions are still on going. We have also challenged management and the Council's valuation specialists on valuation differences identified through our sensitivity analysis work using other indices. These discussions are still on-going and we intend make our conclusions before we issue the audit opinion. A material valuation uncertainty was reported by the Council's valuers in 2019-20 in accordance with RICS guidance at that time, a similar uncertainty has been reported by the Council's in-house valuer in 2020-21. We have challenged management on the use of material uncertainty limitations as we consider these are no longer necessary for the 2020-21 financial statements given updated guidance provided by RICS. Our auditors expert valuer has also confirmed this approach. Management do not consider the material uncertainty limitations included in valuations should be removed. 	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p> <p>(light purple) TBC</p>

2. key judgements and estimates(continued)

Significant Judgement or estimate	Summary of management approach	Auditor comments	Assessment																		
<p>Net pension liability (Council) £2.16 billion</p>	<p>Per the draft accounts, the Council's net pension liability at 31 March 2021 is £2,160m (PY £1,735m) comprising the West Yorkshire Local Government Pension Scheme.</p> <p>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 at 31 March 2019, utilising key assumptions such as life expectancy, discount rates, salary growth and pension increase rate.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £425m net actuarial loss during 2020-21.</p>	<ul style="list-style-type: none"> We have assessed the Council's actuary, AON Hewitt, to be competent, capable and objective We have performed additional tests in relation to the accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2019-20 roll forward calculation carried out by the actuary and have no issues to raise. We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – please see the table below for our comparison of actuarial assumptions. The PwC report has also indicated that they are comfortable with AON Hewitt's methodologies used to establish assumptions and they will produce reasonable assumptions as at 31 March 2021 for all employers. <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC comments</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.1%</td> <td>Assumption appears reasonable</td> </tr> <tr> <td>Pension increase rate</td> <td>2.7%</td> <td>Assumption appears reasonable and methodology appropriate.</td> </tr> <tr> <td>Salary growth</td> <td>3.95%</td> <td>In line with 2020 valuation.</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>Future Pensioners: 22.6 Current- pensioners: 21.9</td> <td>Overall mortality assumptions appear reasonable.</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>Future Pensioners: 25.8 Current- pensioners: 24.7</td> <td>Overall mortality assumptions appear reasonable.</td> </tr> </tbody> </table> <ul style="list-style-type: none"> 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 2020-21 to the valuation method. 	Assumption	Actuary Value	PwC comments	Discount rate	2.1%	Assumption appears reasonable	Pension increase rate	2.7%	Assumption appears reasonable and methodology appropriate.	Salary growth	3.95%	In line with 2020 valuation.	Life expectancy – Males currently aged 45 / 65	Future Pensioners: 22.6 Current- pensioners: 21.9	Overall mortality assumptions appear reasonable.	Life expectancy – Females currently aged 45 / 65	Future Pensioners: 25.8 Current- pensioners: 24.7	Overall mortality assumptions appear reasonable.	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious (light purple) TBC</p>
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2. key judgements and estimates(continued)

Significant Judgement or estimate	Summary of management approach	Auditor comments	Assessment
Net pension liability (Council) £2.16 billion		<ul style="list-style-type: none"> We confirmed that valuation assets are based on 31 March 2021 valuations, however, and as reported on page 11, our audit work identified the following matter: <ul style="list-style-type: none"> Net Pension liability – management are awaiting details of two adjustments to the net pension liability from the West Yorkshire Pension Fund. The first adjustment relates to an increase in asset revaluations estimated to be some £32.5m, whilst the second is in respect of an increase in liabilities following the recalculation of early retirements, and estimated at £16.1m. Both figures are estimates only provided by management and may differ on receipt of the actual confirmation. We understand management is adjusting the financial statements for these changes. As part of our additional audit challenge and understanding of the net pension fund liability valuation, we may meet with the Pension Fund actuary. We will update you of any significant matters arising before we issue our audit opinion. <p>Whilst our audit work remains on-going, there are no other issues arising at this time that we wish to bring to the attention of management or the Corporate Governance and Audit Committee.</p>	<p>We consider management’s process is appropriate and key assumptions are neither optimistic or cautious (light purple) TBC</p>

2. key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Grants Income: £1,430.8m (PY £1,117.9m)</p> <p>The Council receives a number of grants and contributions and is required to follow the requirements set out in the Code. The main considerations are to determine whether the Council is acting as principal or agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income.</p> <p>Due to the Covid-19 pandemic there has been a significant increase in the level of grant funding with associated complexity and requirement of management's judgement on the accounting.</p>	<p>Management has taken into account three main considerations in accounting for grants:</p> <ol style="list-style-type: none"> whether the Council is acting as the principal or agent and particularly whether it controls the goods or services before they transfer to the service recipient. Management's assessment needs to consider all relevant factors such as who bears credit risk and responsibility for any overpayments, who determines the amount, who sets the criteria for entitlement, who designs the scheme and whether there are discretionary elements. whether there are conditions outstanding (as distinct from restrictions) that would require the grant to be recognised as receipt in advance, otherwise grant should be recognised as income whether the grant is a specific or non-specific grant. General un-ringfenced grants are disclosed on the face of the CIES, whereas ringfenced grants are required to be credited to service revenue accounts. <p>There may be judgements over the accounting treatment. Different conclusions may be reached by councils depending on how they have applied any discretion in administering the schemes and application of Code guidance.</p>	<ul style="list-style-type: none"> We have substantively tested a sample of grants across categories and reviewed management's assessment as to whether the Council is acting as the principal or agent For the samples selected we have reviewed the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income We have also assessed for a sample of grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES or not We have assessed the adequacy of disclosure of grants received and judgement used by management as part of our detailed testing. <p>Our audit work and testing remains on-going, to date, we have not identified any matters to report.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious (light purple) TBC</p>

2. key judgements and estimates (continued)

Significant judgement or estimate

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Minimum Revenue Provision: £37.4m (GF £31.2m & HRA £6.2m) (PY 11.4m)</p>	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The 2020-21 year end MRP charge was £37.4m, after the use of capital receipts of £26.9m. This is an increase over the MRP charge in 2019-20 of £11.4m. The lower figure in 2019-20 was due to the use of accumulated savings resulting from overpayment of MRP in earlier years of some £34m which have not been available to the same extent in 2020-21.</p> <p>The Council reviews its MRP policy each year as part of the budget setting process in line with the Capital Financing Regulations. Under the statutory guidance, there are four options available to the Council:</p> <p>Regulatory Method</p> <ol style="list-style-type: none"> 1. Capital Financing Requirement Method 2. Asset Life Method - Equal instalment method 3. Asset Life Method – Annuity method 4. Depreciation Method <p>In the Council's 2020-21 MRP policy:</p> <ul style="list-style-type: none"> • MRP for borrowing on capital expenditure incurred between 2007/08 and 2019/20 will be calculated on an annuity basis over the expected useful life of the assets (option 3 in the statutory guidance) • For earlier borrowing, MRP will be calculated on an asset life annuity basis • For PFI liabilities, MRP will be calculated on the basis of the expected life of the asset which has been acquired, using the same annuity basis as is used for borrowing. • For PFI lifecycle costs, MRP will be calculated on a 10 year asset life annuity basis, unless a more specific asset life is given in the contractor's financial model. <p>In the main, the Council has opted to use Option 3, the annuity method, which generally means less is charged in the earlier years and more in future years.</p>	<ul style="list-style-type: none"> • We have reviewed the Council's approach to MRP as described on the left and overleaf on page 23 • The Council's calculation of MRP has been determined in line with the statutory guidance and management assess the MRP charge to remain prudent • Our work indicates that the Council's MRP charge for 2020-21 is based on an average asset life of 48.9 years compared to an expected 50 years. Whilst in accordance with our expectations for 2020-21, we are aware the Council has in earlier years been reducing its MRP charge through a range of measures which for example, reduced the MRP charge in 2019-20 to £11.4m. The lower charge in 2019-20 was due to the use of savings resulting from overpayment of MRP in earlier years of some £34m which have not been available in 2020-21. The use of the annuity method adopted by the Council which is in accordance with one of the options within the statutory guidance results in lower MRP payments in earlier years with increased payments in future years. In our view, this approach whilst permitted by the guidance and used by a number of local authorities is not as prudent as the other methods. It has the consequence of pushing costs into future years and could reduce, all things remaining equal, the Council's ability to spend on other service areas in the future. • As part of our value for money work, we will consider the profiling of the Authority's MRP charge and consider its appropriateness along with how the Council has considered the future impact of increased MRP costs given its use of the annuity method of calculation. 	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p> <p>(light purple) TBC</p>

2. key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision continued	<p>MRP will ordinarily commence in the financial year following the one in which expenditure is incurred. However, MRP guidance permits authorities to defer MRP until the financial year following the one in which the asset becomes operational. The Council has chosen to employ this method.</p> <p>In applying Option 3, the Council's finance team in conjunction with the RICS qualified valuer, review the useful lives of assets.</p> <p>The MRP charge is an area of increasing focus for local authority external auditors following recent high publicised financial challenges at certain local authorities where MRP charges were found to be inappropriate. For our 2020-21 audits, we have compared the MRP charge as a percentage of the Capital Financing Requirement. At Leeds, the charge is £64.3m (gross before capital receipt offsets) against a CFR amount of £3,145.7m, which is 2.04% (or equates to 48.9 years) and in accordance with our expectation of some 2%.</p> <p>Whilst in accordance with our expectations for 2020-21, we are aware the Council has in earlier years been reducing its MRP charge through a range of measures which for example, reduced the MRP charge in 2019-20 to £11.4m (GF & HRA). As part of our value for money work, we will consider the profiling of the Authority's MRP charge and consider its appropriateness along with how the Council has considered the future impact of increased MRP costs given its use of the annuity method of calculation.</p> <p>MRP on an Annuity Basis</p> <p>The Council accounts for MRP and repayment of borrowing on an annuity basis. This means all outstanding debt is 'repaid' within 50 years (or earlier) with the profile of repayments increasing over time i.e. repayments start low and increase over the 50 year term. The annuity method is permitted as per the Statutory Guidance.</p> <p>The use of the annuity method adopted by the Council which is in accordance with one of the options within the statutory guidance results in lower MRP payments in earlier years with increased payments in future years. In our view, this approach whilst permitted by the guidance and used by a number of local authorities is not as prudent as the other methods. It has the consequence of pushing costs into future years and could reduce, all things remaining equal, the Council's ability to spend on other service areas in the future.</p> <p>Overall, the Council maintains an MRP model that compares future charges, the budgetary provision ensures that the MRP charges are affordable. As mentioned above, we will consider the profiling of the Authority's MRP charge as part of our value for money work during 2020-21 and consider its appropriateness along with how the Council has considered the future impact of increased MRP costs.</p>	See previous page for auditor comments.	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p> <p>(light purple) TBC</p>

2. Other communication requirements

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



Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Council's Corporate Governance and Audit Committee and the Chief Officer – Financial Services. We have not been made aware of any material incidents in the year and no other issues have been identified during the course of our audit.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. Our work did however identify some over disclosures in Related Party Transactions in Note 12.4. In our view, some of the related party disclosures made by the Council are in excess of the requirements of the Code and IAS 24. As such we raised a proposal to reduce the level of related party disclosures in the accounts. Management are not minded to reduce the disclosures on the basis they deem them helpful to the readers of the Accounts and also consider the existing disclosures comply with the Code (see also Appendix C).
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 standard letter of representation is expected to be requested from the Council which is included at Appendix G.
Confirmation requests from third parties	We requested from management permission to send a confirmation request to the Council's bankers, and entities who were involved with the Council's investments and borrowings. This permission was granted and the requests were sent and responded to with positive confirmations.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements to date. Our work did identify a small number of presentational disclosure amendments which have been processed by management and these are set out at Appendix C.
Audit evidence and explanations / significant difficulties	As last year, working papers whilst showing the build up of the numbers in the accounts and related notes, have not always been reconciled to the FMS general ledger system. This has required additional audit work or further requests to management to reconcile adding additional time to the audit process. We recommended in our Audit Findings (ISA260) Report last year that Management should introduce a review process where working papers produced are reconciled to FMS and reviewed by someone independent of the preparers and signed off before being uploaded for auditor access. We have repeated this recommendation in the Action Plan.

2. Other communication requirements



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).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none">• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none">• the nature of the Council and the environment in which it operates• the Council's financial reporting framework• the Council's system of internal control for identifying events or conditions relevant to going concern• management's going concern assessment. <p>On the basis of this work, we have obtained sufficient and appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none">• a material uncertainty related to going concern has not been identified• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified other than minor presentational matters, which have been adequately rectified by management. These are reported at Appendix C. We plan to issue an unmodified opinion in this respect as reported at Appendix E.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none">• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,• if we have applied any of our statutory powers or duties.• where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness(es). <p>We have nothing to report on these matters. Our Value for Money work is underway and will be completed by the end of March 2022.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>We note that guidance for this work has not yet been issued and therefore this work has not yet commenced. The NAO requires the work to be completed once the audit opinion is provided on the financial statements and has not yet released data collection instructions.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2020-21 audit of the Council in the audit report, as detailed at Appendix E, until we have completed our work on the WGA consolidation exercise mentioned above and completed our Value for Money responsibilities with the issue of the Auditor's Annual Report.</p> <p>This is in common with the vast majority of other local authorities given the later audit deadline for the VFM work and the current lack of instructions for the WGA work.</p>



3. Value for Money arrangements

Revised approach to Value for Money work for 2020-21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020-21. The Code introduced a revised approach to the audit of Value for Money (VFM).

There are three main changes arising from the NAO's new approach:

1. A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
2. More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria
3. Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows (in order of severity):



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. Value for Money arrangements

Audit procedures and conclusions for 2020-21

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was sent to the Corporate Governance and Audit Committee Chair in September and is replicated at Appendix F to this report. We expect to issue our Auditor's Annual Report by the end of March 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our initial planning work identified no significant VFM weaknesses in the Authority's arrangements except for the Council's overall financial position as a result of the financial challenges exacerbated by the Covid-19 pandemic. This risk follows on from the 2019-20 qualified 'except for' value for money conclusion we issued last year. The findings from our VFM work will be included in the Auditor's Annual Report.

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

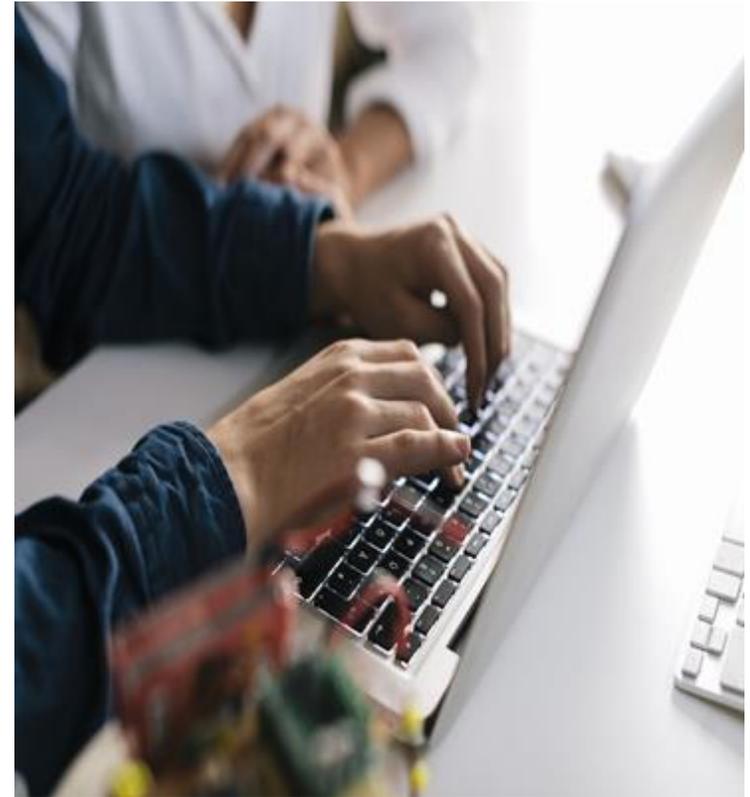
We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

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 detailed at Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)



4. Independence and ethics (continued)

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 Group. The following services were identified as well as the threats to our independence and associated safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related:			
NONE	-	-	-
Non-audit related:			
CFO Insights	£17,500	Self-Interest (because this is a recurring fee). Note: the subscription expired at the end of 2020-21 and has not been renewed.	<p>This is an online software services that enable users to rapidly analyse data sets. CFO Insights is a Grant Thornton & CIPFA collaboration giving instant access to financial performance, service outcomes and socio-economic indicators for local authorities.</p> <p>It is the responsibility of management to interpret the information. The scope of our service does not include making decisions on behalf of management or recommending or suggesting a particular course of action. These factors mitigate the perceived self-interest threat. The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £17,500 in comparison to the total fee for the audit of £275,604 and in particular relative to Grant Thornton UK LLP's turnover overall. These factors all mitigate the perceived self-interest threat to an acceptable level.</p>

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Corporate Governance and Audit Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action Plan

We have made the following recommendations as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on this recommendation during the course of our 2021-22 audit. The matters reported here are limited to the areas we have identified during the course of our audit, and are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	<p>Asset valuations</p> <p>The valuation of a number of assets in the financial statements have been overstated, including some within the rolling programme of valuations (£2.1m) resulting from a clerical error, and the Temple Green Park and Ride scheme (£16.4m) which incorrectly included the land value twice and used the wrong building costs in valuation</p> <p>There is a need for management to more effectively review the valuations provided by its valuation experts to ensure the valuation is appropriate and supported by the data used for valuations, without this, there remains a risk that valuations may not be correctly recorded in the financial statements.</p>	<p>There is a need for management to more effectively review the valuations provided by its valuation experts to ensure the valuation is appropriate and supported by the data used for valuations.</p> <p>Management response:</p> <p>The Council will look to introduce sample checking to reduce the risk of clerical errors in the transfer of valuations data to the Finance team. The Council's valuers will review their quality assurance procedures.</p>
Medium	<p>Group account disclosure</p> <p>The Council does not produce group accounts but is involved with a number of entities. The accounts disclosure (Note 24) 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. Whilst the Council has expanded the narrative disclosure in 2020-21, we consider this can be developed further to include for example, a table summarising gross income, gross expenditure, surplus / deficit as well as gross assets and gross liabilities for each entity.</p> <p>Without this information, a reader would not be aware of the entities the Council controls and their financial significance to the Council.</p>	<p>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 and where further information is available.</p> <p>Management response:</p> <p>The group accounts disclosure identifies by name the entities which are within the Council's group. For the 2020/21 disclosure, the Council did include in the narrative the high level financial information for its only non-trivial subsidiary, sufficient for readers to understand its financial significance to the council. The Council will review its disclosure for 2021/22, but notes that there would be practical difficulties in obtaining reliable financial information for some of the non-material entities which do not produce their accounts in line with the local authority accounts timetable.</p>

A. Action Plan

Assessment	Issue and risk	Recommendations
Medium	<p>Valuation of land and buildings</p> <p>The Council moved its valuation date from 30 September to 1 January in 2020-21. This approach requires an estimation from 1 January to 31 March at the year end to ensure there has not been a material change in asset values.</p> <p>There is a risk that asset values are not correctly valued in the financial statements.</p>	<p>Management should revise its valuation date for the valuation of fixed assets from the current 1 January, to the year end, 31 March each year.</p> <p>Management response:</p> <p>The Finance team will again consult with the Council’s valuers over the practicality of obtaining robust valuations based on observable data within the required timescales for production of the draft statement of accounts. However valuation work is already underway for the 2021/22 statement of accounts based on the valuation date of 1st January 2022.</p>
Medium	<p>Working Papers</p> <p>As last year, whilst working papers show the build up of the numbers in the accounts, there is generally a gap in reconciling these to the FMS system. This requires additional work to agree or further requests to management for additional information. Without appropriately reconciled working papers to the FMS system, the audit process will take longer than necessary.</p>	<p>Management should introduce a review process where working papers produced are reviewed by someone independent of the preparers to ensure they agree to the accounts and have been reconciled to FMS as a quality check and signed off to evidence review before being uploaded for auditor access.</p> <p>Management response:</p> <p>It is important to be clear that all working papers are already agreed to FMS and to the financial statements. The Finance team will review its processes for working papers, and in particular the extent to which it could make the presentation of working papers simpler for the benefit of audit staff.</p>

A. Action Plan – IT recommendations

Assessment	Issue and risk	Recommendations
High	<p>User accounts identified with inappropriate access rights in SAP</p> <p>Our work identified 18 user accounts with inappropriate DEBUG access allowing users to by-pass most controls in SAP.</p> <p>Risk</p> <p>DEBUG access presents several risks including the ability to change or delete data without this being logged.</p>	<p>We recommend Debug access should not be permanently granted in the production environment and existing user accounts reviewed and debugging access removed.</p> <p>Management response:</p> <p>The Council is reviewing this finding and will take appropriate remedial action once the technical implications have been fully assessed.</p>

A. Action Plan – IT recommendations

Assessment	Issue and risk	Recommendations
<p>High</p>	<p>Segregation of duty conflicts within SAP</p> <p>We noted segregation of duty conflicts within the SAP system with 5 user-IDs assigned with developer access who could potentially change the source code in production. We also identified 4 user accounts with conflicting access combinations that could be used to make changes to the production environment.</p> <p>Risk</p> <p>Inappropriate segregation of duties allows the bypassing of system-enforced internal control mechanisms through inappropriate use of administrative functionality allowing inappropriate and unauthorised changes to system configuration parameters.</p>	<p>We recommend user accounts should be reviewed and appropriate segregation of duties introduced, in addition, developer access keys should not be given to users.</p> <p>Management response</p> <p>The Council is reviewing this finding and will take appropriate remedial action once the technical implications have been fully assessed.</p>
<p>Medium</p>	<p>Lack of review of information security/audit logs in FMS and Capita (Academy)</p> <p>Information security event logs, which capture the monitoring of activities such as failed logins and use of privileged user accounts within Capita(Academy) and FMS are not reviewed.</p> <p>Risk</p> <p>Without formal and routine reviews of security event logs, inappropriate and anomalous activity may not be detected and resolved in a timely manner.</p>	<p>We recommend security event logs are reviewed on a regular basis for example daily or weekly, by IT security personnel / team who are independent of those administering FMS & Capita(Academy) and its underlying database.</p> <p>Management response</p> <p>Academy – The system does not have the technical capability to provide a log showing when a user's access was created/amended or revoked.</p> <p>FMS – The possibility of reporting on failed logins will be considered.</p>

A. Action Plan – IT recommendations

Assessment	Issue and risk	Recommendations
Medium	<p>Inadequate control over generic accounts within FMS database and Capita (Academy) application</p> <p>We noted inadequate control over generic accounts within the FMS database and Capita (Academy) application. While the system was configured to record failed logins, the following generic accounts were not monitored for suspicious activity: two generic FMS database administrator user accounts “SYS” and “SYSTEM”; and the generic Capita(Academy) administrator user account “Database Admin”. Additionally, we noted no password reset controls were configured on these user accounts to enforce the periodic change of passwords.</p> <p>Risks</p> <p>The use of generic or shared accounts with high-level privileges increases the risk of unauthorised or inappropriate changes to the application or databases. Where unauthorised activities are performed, they will not be traceable to an individual.</p>	<p>We recommend where possible, generic accounts should be removed, and individuals should have their own uniquely identifiable user accounts created to ensure accountability for actions performed. Where monitoring is undertaken this should be formally documented and recorded.</p> <p>Management response</p> <p>FMS – These generic user IDs and passwords are encrypted into scripts for some automatic processes, and there would be risk involved in re-writing these scripts for periodic password changes. The passwords are held in a DataBase vault.</p> <p>Academy - This is an admin account for the Database administrator. Although the account has a generic name, only the Principal DBA Officer has access, therefore the account is personal to him. This account is not for managing users, this account is only to access and maintain the backend build of the system and tables.</p>

B. Follow up of prior year recommendations

We identified seven recommendations in the audit of the Council's 2019-20 financial statements, which were reported in our 2019-20 Audit Findings (ISA260) Report. We followed these up in our 2020-21 Audit Plan dated 21 July 2021. Management has actioned three of the agreed recommendations with three remaining on-going and one not being actioned.

	Assessment	Issue and risk previously communicated in the 2019-20 ISA260 Report	Update on actions taken to address the issue as per Audit Plan July 21
1	Not actioned	<p>Valuation of Land and buildings</p> <p>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.</p>	<p>Management should revise its valuation date for the valuation of fixed assets from the current 30 September date, to the year end, 31 March each year.</p> <p>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.</p> <p>Update: a revised revaluation date of 1 January has now been agreed by management.</p>
2	Actioned	<p>Heritage Assets</p> <p>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.</p>	<p>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.</p> <p>The Corporate Finance team has worked with the Museums & Galleries Service to improve the process for identifying high value assets.</p>
3	On-going	<p>Working Papers</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>Update: Not all working papers provided have been reviewed and agreed to FMS. A recommendation has been re-raised in the Action Plan at Appendix A.</p>
4	Actioned	<p>Future level of useable reserves</p> <p>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.</p>	<p>The Council recognises the requirement to keep the level of reserves under review. 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. The Council is planning to increase the level of reserves over the next few years in accordance with its MTFS.</p>

B. Follow up of prior year recommendations

	Assessment	Issue and risk previously communicated in the 2019-20 ISA260 Report	Update on actions taken to address the issue as per Audit Plan July 21
5	On-going	<p>Reducing Council expenditure</p> <p>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.</p>	<p>Since May the Council has implemented a number of measures which include a freeze on non-essential spend, recruitment and the use of agency staff. Savings realised from these actions combined with the utilisation of other Directorate savings, and the application of earmarked reserves, has resulted in a balanced budget position for 2020/21 being reported to the Council's Executive Board in December.</p>
6	Actioned	<p>Related Parties</p> <p>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. There is a risk related parties are not correctly disclosed.</p>	<p>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 has been updated and the disclosure has been reviewed for the final accounts.</p>
7	On-going	<p>Financial Position</p> <p>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.</p> <p>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.</p>	<p>There is a need for the Council to:</p> <ul style="list-style-type: none"> 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. <p>We accept these recommendations and welcome the regular liaison to monitor the Council's financial position for both 2020/21 and 2021/22 which remain on-going.</p>

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 2021.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £000	Impact on useable reserves
1. PPE valuations - a number of assets have been inappropriately overvalued including within the rolling programme of valuations (£2.1m) and the Temple Green Park and Ride scheme (£16.4m)	-	(18,500)	-
2. Net Pension liability – management are awaiting details of two adjustments to the net pension liability from the West Yorkshire Pension Fund. The first adjustment relates to an increase in asset revaluations estimated to be some £32.5m, whilst the second is in respect of an increase in liabilities following the recalculation of early retirements, and estimated at £16.1m. Both figures are estimates until confirmed.	16,400 TBC (16,400) TBC	16,400 TBC	-
Overall impact	Nil	2,100 TBC	Nil

C. Audit Adjustments

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.

No.	Adjustment Type	Description and value	Account Balance	Updated in the revised accounts?
1.	Disclosure	A number of disclosure amendments were identified to the Foreword including: <ul style="list-style-type: none"> previous revaluation gains of £228.7m should be £233.3m per last year's audited accounts refers to the Collection Fund with negative reserves of £223.7m as at 31st March 2020. Should be 31 March 2021. 	Foreword	✓
2.	Disclosure	Note 11 PFI - The Council's working papers used to arrive at the commitments shown in this note have not been updated for actual increases to unitary payments over the years (based on value of unitary payments at time arrangements entered into plus assumed inflation increases). This is a disclosure amendment only.	Note 11 - PFI	TBC
3	Disclosure	Related Party Transactions - Note 12.4. In our view, some of the related party disclosures made by the Council are in excess of the requirements of the Code and IAS 24. As such we consider the Council should reduce the level of related party disclosures in the accounts. Management are not minded to reduce the disclosures on the basis they deem them helpful to the readers of the Accounts and also consider the existing disclosures comply with the Code.	Note 12.4 - Related Parties	X
4	Disclosure	The disclosures relating to Merion House should be deleted as there are no commitments given the rent has been paid in advance in 2018-19. The Council as last year have not deleted the Merion House disclosures but have added a note to explain that amounts shown have been paid.	Note 12.6 Operating leases	TBC

C. Audit Adjustments

No.	Adjustment Type	Description and value	Account Balance	Updated in the revised accounts?
5.	Disclosure	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 which should be added.	MIRS	TBC
6.	Disclosure	Movements in Collection Fund Adjustment Account not disclosed. This should be disclosed as a material Code requirement.	MIRS	TBC
7.	Disclosure	The subscription to CFO Insights (£17.5k) is not included within the Audit fees note for 2020-21. This should be added.	Note 12.5 – Audit Fees	✓
8.	Disclosure			
9.	Disclosure			
10.	Disclosure			
11.	Disclosure			
12.	Disclosure			

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides detail of adjustments identified during the 2020-21 audit which have not been made within the final set of financial statements due to their immaterial nature. The Corporate Governance and Audit Committee is required to consider 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 IDENTIFIED TO DATE.	-	-	-	-
Overall impact	-	-	-	-

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements in the prior year.

D. Fees

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

Audit fees 2020-21	Proposed fee per Audit Plan July 2021	Final fee
Council Audit	£275,604	£275,604
Total audit fees (excluding VAT)	£275,604	£275,604

Non-audit 'audit related' fees for other services:	Proposed fee	Final fee
CFO Insights	17,500	17,500
Total non-audit fees (excluding VAT)	17,500	17,500

Note: the CFO Insights subscription expired at the end of 2020-21 and has not been renewed by the Council.

The 2020-21 fees reconcile to the revised version of the financial statements following an amendment to the draft accounts in Note 12.5 – Audit Fees. **[TBC]**

E. Audit opinion (draft)

Our proposed draft audit opinion is included below.

TO BE CONFIRMED

Subject to satisfactory completion of our audit work we expect to issue an unqualified (clean) audit opinion on the 2020-21 financial statements. Our VFM work remains on-going and our findings will be reported in the Auditor's Annual Report.

E. Audit opinion (draft)

TO BE CONFIRMED

E. Audit opinion (draft)

TO BE CONFIRMED

E. Audit opinion (draft)

TO BE CONFIRMED

F. Audit letter in respect of delayed VFM work

Councillor Kamila Maqsood
Chair of Corporate Governance and Audit Committee
Leeds City Council
Civic Hall
Leeds
LS1 1UR

21 September 2021

Grant Thornton UK LLP
Whitehall Riverside
Leeds
LS1 4BN
T +44 (0)113 245 5514

Dear Cllr Maqsood

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We will be working on our VFM arrangements review of the Council over the coming months and expect to report our findings to management within three months of our accounts opinion date and present our report to the Corporate Governance and Audit Committee thereafter.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Gareth

Gareth Mills
Key Audit Partner and Engagement Lead for Leeds City Council

G. Letter of Management Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

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

4 February 2022

Dear Sirs

Leeds City Council Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Leeds City Council for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the Council 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 2020/21 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 2020/21 ("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 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. Such accounting estimates include the valuation of land and buildings and the net pension fund liability. 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. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable 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 financial statements:
 - vi. there are no unrecorded liabilities, actual or contingent
 - vii. none of the assets of the Council has been assigned, pledged or mortgaged
 - viii. 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.

G. Letter of Management Representation

- 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 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 and attached. 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-end. 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. 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 :
 - a. the nature of the Council means that, notwithstanding any intention to cease the Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
 - b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
 - c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

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.

G. Letter of Management Representation

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 4 February 2022.

Yours faithfully

Name.....

Position.....

Date.....

Signed on behalf of the Council

