Leeds City Council 2023-24 Audit Plan

Year ending 31 March 2024

4 September 2024

Contents

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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.

1. Key matters

National context

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local Government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Recently, there has been a concerning rise in the number of councils issuing s114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we have taken account of this national context in designing a local audit programme which is tailored to your risks and circumstances.

Local context:

The Council's financial performance 2023-24

The Council approved a net budget for 2023-24 of £573.4m which included a Council Tax increase of 4.99% (Council Tax 2.99% and Adult Social Care precept 2.00%). To deliver this balanced budget, the Council identified a savings requirement of £58.6m for 2023-24. Whilst the Council set a balanced budget for 2023-24, this came under significant pressure from the impact of inflation, pay costs and increased demand for some services, including Children's services. These pressures are similar to those faced by other local authorities.

The most recent financial health monitoring report presented to Executive Board on 19 June 2024 on the Council's outturn position for 2023-24 forecasts a balanced year end position for General Fund after the use of £5.2m from the Merrion House reserve and recognition of a refund of £17.7m from the West Yorkshire Combined Authority (WYCA) in relation to amounts collected for the Transport Fund which are no longer required. Savings budgeted at the start of the year amounted to £58.6m with a further £7.2m of savings identified in year, giving a total of £65.8m for 2023-24. The Council actually delivered £50.6m of the savings planned (or some 77%). Slippage was primarily due to the delayed delivery of savings within Children's social care.

The balanced outturn position includes some overspends within directorates with the largest overspend by some margin being the Children and Families directorate. The outturn position for this directorate was an overspend of £38.1m. The Council's total General Fund Reserves have reduced from £154.8m at the start of the year (1 April 2023) to £116.9m at the end of the year (31 March 2024), a reduction of £37.9m. Within this total, General Fund free reserves have increased marginally from £33.2m to £36.2m at the year end.

1. Key matters

Dedicated Schools Grant (DSG)

As noted in our Auditor's Annual Report for 2022-23, the Council's forecast DSG deficit from 2024-25 may place significant further pressure on the Council's financial position if the statutory override is not extended beyond March 2026.

The DSG is a ring-fenced budget which is allocated in blocks; schools, early years and high needs. The DSG is allocated in four blocks: schools, high needs, early years and central schools services. At the start of 2023-24, there was a surplus balance of £9.0m on the DSG. However, the Council forecasts a cumulative DSG deficit over the medium term, reaching £17.7m in 2026-27 and £31m by 2027-28, with an in-year overspend of between £0.8m and £17.7m per year if no action is taken. Most of the expected forecast overspend is on the high needs block and the Council is currently reviewing the options available for managing this.

A statutory override has been provided by the Government which currently allows the DSG deficit to be carried over as a negative reserve without the need to draw on the general fund reserve. This override is time-limited and was due to end in March 2023 but in recognition of the national challenge in relation to DSG deficits, was extended for a further three years to March 2026. It is unclear if the statutory override will be extended beyond March 2026. If the statutory override is not extended or financial support is not forthcoming to reduce the projected financial deficit, a substantial deficit would be a further significant pressure for the Council to manage within already stretched resources.

External Audit timeline and the Backstop

In our Audit Progress Report and Implications of the Proposed Backstop on the 2022-23 Audit presented to the Corporate Governance and Audit Committee (CGAC) on 12 February 2024, we noted that audit work would only commence on the Council's 2022-23 financial statements if the audit of the prior year, 2021-22 had been completed and our audit opinion issued by 31 March 2024. We are pleased to note that with the co-operation and significant support of the finance team, the 2021-22 audit was completed and concluded on 27 March 2024.

We subsequently commenced work on the Council's financial statements audit for 2022-23, using a dedicated audit team which we have ring fenced for the audit of Leeds City Council. We plan to have completed audit work by 30 September 2024, ahead of the revised 'backstop' deadline of 13 December 2024. Progress on the Council's 2022-23 audit currently remains on track. We continue to meet weekly with the finance team to discuss audit progress, issues arising and resolve any matters to ensure the audit progresses without delay. At the date of this Audit Plan, the 2022-23 audit remains on track and is RAG rated 'Green'. We have noted a distinct improvement in the response times to audit queries and requests for information. If this improvement is maintained, we expect to conclude the 2022-23 audit by the end of September 2024, after which we will commence the 2023-24 audit with a view to completing our work by the end of January 2025. If we are able to deliver to this timetable, Leeds City Council will have caught up all prior year audits and be back on a normal timeline for its 2024-25 audit.

1. Key matters

Our Responses on key Council matters

- As a firm, we are absolutely committed to high standards and continually improving audit quality and financial reporting in the local Council sector. Our proposed work and fee, as set out further in this Audit Plan, has been agreed with the Chief Financial Officer
- We will continue to review the Council's financial position and performance through our regular discussions with the Chief Financial Officer, including budget monitoring, anticipated revisions to the MTFS, management of general fund and useable reserves and the DSG position
- We will continue to discuss Council's strategic direction and associated challenges with the Council's senior officers through our regular liaison meetings
- We will continue to consider your arrangements for managing and reporting your financial resources as part of our 2023-24 audit of your financial statements
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work. Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will follow up progress in implementing the actions agreed in respect of matters identified in the 2022-23 audit relating to the financial statements audit. We will also follow up of recommendations made as part of our 2022-23 review of your VFM arrangements in our 2022-23 Auditor's Annual Report
- We will continue to provide the Corporate Governance and Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators. We will also participate in providing the Corporate Governance and Audit Committee training sessions as requested
- We will continue to hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, discuss topical issues with our technical specialists and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We continue to identify a significant risk in regard to the management override of controls (see page 9 which is our key response to this risk)
- We will continue to update the Chief Financial Officer on progress in completing the audit and report to the Corporate Governance and Audit Committee should there be any slippage in undertaking our work.

2. Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Leeds City Council ('the Council') for those charged with governance.

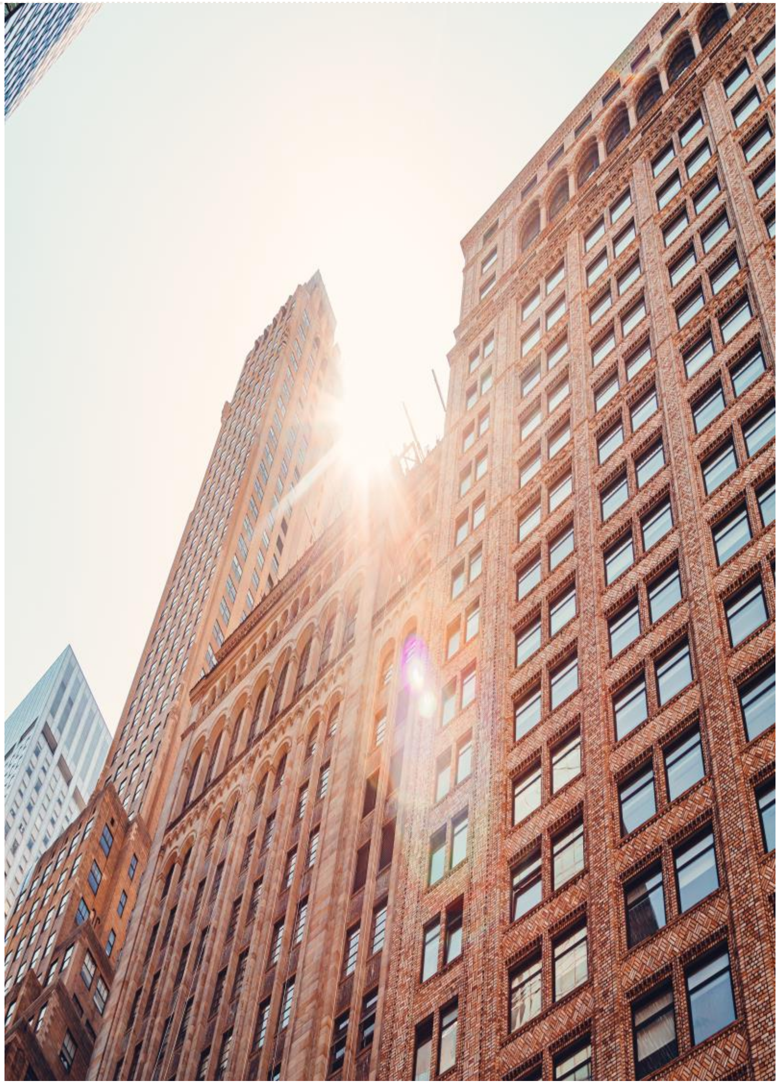
Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments Limited (PSAA), the body responsible for appointing us as auditor of the Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council 's financial statements that have been prepared by management with the oversight of those charged with governance (the Corporate Governance and Audit Committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Corporate Governance and Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. Our audit approach is based on a thorough understanding of the Council's operations and is risk based.



2. Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls
- Closing valuation of land and buildings (including council dwellings)
- Valuation of the net pension fund balance.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £28,432k (PY £28,432k) for the Council, which equates to 1.3% of your prior year (2022-23) draft gross expenditure in cost of services for the Council.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. As part of our risk assessment, we have considered the impact of unadjusted prior period errors.

Clearly trivial has been set at £1,400k (PY £1,400k) for the audit.

We have based our materiality calculations on your updated draft 2022-23 financial statements dated April 2024.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following ongoing risks of significant weakness:

Risk 1 - Financial sustainability

Due to the financial pressures and challenges faced by the Council, there is a risk that the Council may not be able to deliver its services within the financial resources available to it, in particular:

- its arrangements for managing departmental overspends
- delivering its planned savings target for the year in full
- managing the increased demand and costs for both Adult Social Care and Children's Services

Risk 2 - Financial sustainability

There is an increasing MTFS budget gap which, coupled with the expected in-year overspends and relatively low level of general fund reserves risks the Council's ability to deliver a balanced outturn position in the medium term.

We will continue to keep our VFM risk assessment under review and report any other appropriate matters up until we issue our 2023-24 audit opinion.

Audit logistics

Our planning work commenced in May 2024 and is currently paused to allow the completion of the 2022-23 accounts audit. We will conclude our planning work in October after the 2022-23 accounts have been signed off. Our final accounts audit work will take place during November 2024 to January 2025.

Our key deliverables are this Audit Plan, our Audit Findings (ISA260) Report and our Auditor's Annual Report on the Council's VFM arrangements.

Our proposed fee for the audit will be £575,491 (PY: £295,604) for the Council, subject to the Council delivering a good set of financial statements and working papers. More detailed analysis of our fee is included at section 10.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

3. Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Risk of fraud in revenue recognition and expenditure - rebutted	**Revenue** 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 Council, 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 the 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 • the culture and ethical frameworks of local authorities, including at the Council, mean that all forms of fraud are seen as unacceptable.	As we do not consider this to be a significant risk for the Council, we will not be undertaking any special audit work in this area other than our normal audit procedures which include: **Accounting policies and systems** • Evaluate the Council's accounting policies for recognition of income and expenditure for it's material income and expenditure streams and compliance with the CIPFA Code • Update our understanding of the Council's business processes associated with accounting for income and expenditure. **Fees, Charges and other service income** • Agree, on a sample basis, income and year end receivables from other income supporting evidence. **Taxation and non specific grant income** • Income for national non –domestic rates and council tax is predictable and therefore we would conduct substantive analytical procedures • For other grants we will sample test items for supporting evidence and check the appropriateness of the accounting treatment in line with the CIPFA Code. **Expenditure** • Agree, on a sample basis, non pay expenditure and year end payables to supporting evidence • Undertake detailed substantive analytical procedures on pay expenditure. We will also design and carry out appropriate audit procedures to ascertain that recognition of income and expenditure is in the correct accounting period, for example, undertaking cut off testing.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

3. Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied and made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide engagement teams with sufficient evidence to support their judgements and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

3. Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Closing valuation of land and buildings, including Council dwellings	The Council re-values its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (c£6,651m) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value at the financial statements date, where a rolling programme is used. We therefore identified the closing valuation of land and buildings, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation experts • discuss with the valuers the basis on which the valuation was carried out • challenge the information and assumptions used by the valuers to assess completeness and consistency with our understanding • engage our own auditor's expert valuer to assess the instructions issued to the Council's valuers, the Council's valuers' report and the assumptions that underpin the valuation • test revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluate 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 • consider, where the valuation date is not 31 March 2024 for assets valued in year, the arrangements management has used to ensure the valuation remains materially appropriate at 31 March 2024.

'In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.' (ISA (UK) 315)

3. Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund balance	The Council's pension fund net balance, as reflected in its balance sheet, represents a significant estimate in the financial statements. The pension fund net balance is considered a significant estimate due to the size of the numbers involved (£98.2m asset and £105.7m liability as at 31 March 2023) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund balance as a significant risk, which was one of the most significant assessed risks of material misstatement. The Council is an admitted body of the West Yorkshire Pension Fund. The Council's draft 2023-24 accounts indicate a net pension asset of £208.0m and a net pension liability of £96.9m at 31 March 2024. As a result of this, the Council (in common with a number of local authorities) will need to consider the potential impact of IFRIC 14 on the Authority's IAS 19 accounting. IFRIC 14 is the accounting principle that limits the recognition of a defined benefit asset in the financial statements.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net balance is not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • assess the accuracy and completeness of the information provided by the Council's to the actuary to estimate the liability • test 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 • undertake procedures to confirm the reasonableness of the actuarial assumptions including the net pension balance, by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • evaluate the triennial pension fund valuation outcomes and assess the reasonableness and prudency in that overall valuation through our audit approach as applicable. Audit approach to be determined upon relevancy. • undertake procedures as relevant, if there is a movement from a net pension liability to a net pension asset and ensure that movement is materially correct, and any recognition in Council's financial statements is in line with applicable accounting standards (including IFRIC 14) • obtain assurances from the auditor of the West Yorkshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

4. Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2023-24 financial statements, consider and decide upon any objections received in relation to the financial statements
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act)
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'.

All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

5. Progress against prior year audit recommendations

Our 2022-23 audit is currently on-going and we are not yet in a position to issue our Audit Findings (ISA 260) Report. We have however, followed up progress relating to the three recommendations made in our 2021-22 Audit Findings (ISA260) Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	**1. Valuation of land and buildings:** 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. There is a risk that asset values are not correctly valued in the financial statements. We recommended management should revise its valuation date for the valuation of fixed assets from the current 1 January, to the year end, 31 March each year.	**Management response:** Prior to the 2022-23 accounts process the Council again discussed with its valuers the practicality of moving the valuation date for its land and buildings. The conclusion remained that it would not be possible to produce robust valuations for a portfolio of the scale that the Council holds within the timescales required for production of the draft accounts, if the valuation date were to be moved to 31st March. Looking ahead to 2024-25, following recent consultations from the Government and CIPFA there is the potential for the deadline for production of the draft accounts to be extended and for valuation requirements to be amended. The Council will review its valuation date for 2024-25 once the outcome of these consultations is known. **Audit Update - August 2024:** We consider there remains a risk that asset values are not correctly valued in the financial statements at the year end. We consider management should revise its valuation date for the valuation of fixed assets to the year end, 31 March each year. We will follow up action taken by the Council to implement this recommendation as part of our 2023-24 audit.
✓	**2. Working Papers:** As last year, whilst working papers show the build up of the numbers in the accounts, there is often 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. 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.	**Management response:** Agreed. Working papers need to be subject to review. The requirement to prepare appropriate working papers has been reinforced within the Financial Management function and where necessary changes have been made to ensure that the reconciliation back to FMS is much clearer. These improvements have been recognised informally by Grant Thornton staff currently undertaking the audit. **Audit update – August 2024:** We have noted major improvements in the timeliness in responding to audit requests and to audit queries, as well as improvements in the quality of working papers provided. Whilst we have noted these improvements, it is important to ensure that officers maintain these improvements as a matter of course going forward to ensure the Council is able to get back on track to a normal audit timetable. This is particularly important to ensure the 2023-24 audit is concluded by the revised backstop date of 28 February 2025.

5. Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	3. Asset Classification: Our review of 15 items across the Council's property estate identified an asset which had been incorrectly categorised: • St George House in the City Centre (£8.2m) had been classified as other land and buildings in the draft accounts whereas it had been reclassified as an investment property by the Council's valuers. This is a classification issue only as the valuation was undertaken on a fair value basis. There is a need for management to ensure that assets are correctly categorised at the year end.	Management response: Agreed, the valuation of the asset was carried out on a fair basis and so this is a classification issue only and not a valuation error. A review process is in place.

6. 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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined the planning financial statement materiality based on a proportion of the gross expenditure in cost of services of the Council for the prior financial year. We have determined planning materiality to be £28,432k (PY £28,432k) for the Council, which equates to 1.3% (PY 1.3%) of your draft 2022-23 gross expenditure in cost of services.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements.
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £25,000 (PY £25,000).

6. Our approach to materiality

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality. We have based our materiality calculation on your 2022-23 draft accounts. We will keep materiality under review during the course of our audit work.
4	**Other communications relating to materiality we will report to the Corporate Governance and Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Corporate Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1,400 (PY £1,400k) for the Council. If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Governance and Audit Committee to assist it in fulfilling its governance responsibilities.

6. 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 area	Amount £000	Qualitative factors considered
Materiality for the financial statements	28,432	We have determined materiality at 1.3% of gross expenditure in cost of services based on your draft prior year 2022-23 financial statements. We consider this as the most appropriate criteria given stakeholders interest in the Council delivering its budget.
Performance materiality	19,902	Assessed to be 70% of financial statement materiality. The audit is planned and performed to detect material misstatements in accordance with International Standard on Auditing (UK) 320 (ISA 320). It is possible that a number of individually immaterial misstatements may cause the financial statements to be materially misstated. To address this risk, the audit is performed at a lower materiality called performance materiality.
Trivial matters	1,400	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.

7. IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT system have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment. We will keep this under review as the audit progresses and update our understanding if there are additional IT systems within the scope of the audit. We will report to you including our assessments and findings (as applicable) in our Audit Findings (ISA260) Report.

IT system	Audit area	Planned level IT audit assessment
Financial Management System (FMS)	Financial reporting	• Detailed ITGC assessment (design and operating effectiveness) • Application controls assessment (Revenue, Procurement, Payroll) • No reliance to be placed on the operating effectiveness of IT controls
Academy (Revenues & Benefits system)	Council Tax, Business Rates, Benefits	• Detailed ITGC assessment (design and operating effectiveness) • Application controls assessment (Interface to finance system) • No reliance to be placed on the operating effectiveness of IT controls
SAP Payroll	Payroll	• Detailed ITGC assessment (design and operating effectiveness) • Application controls assessment (Interface to finance system) • No reliance to be placed on the operating effectiveness of IT controls
Civica CX	Housing rents	• Detailed ITGC assessment (design and operating effectiveness) • Application controls assessment (Interface to finance system) • No reliance to be placed on the operating effectiveness of IT controls

8. Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

8. Value for Money arrangements – Possible risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the table overleaf, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out below.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

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.

8. Value for Money arrangements – Possible risks of significant VFM weaknesses – continued

The Audit Code sets out that the auditor's work is likely to fall into three broad areas:

- planning;
- additional risk-based procedures and evaluation; and
- reporting.

We undertake initial planning work to inform this Audit Plan and the assumptions used to derive our fee. A key part of this is the consideration of prior year significant weaknesses and known areas of risk which is a key part of the risk assessment for 2023-24. We set out our reported assessment below from last year:

Criteria	2022-23 Auditor judgement on arrangements	Additional risk-based procedures planned
Financial sustainability	Key recommendation raised in relation to the Council's financial sustainability; three further improvement recommendations also raised.	We will follow up progress against the key recommendation and improvement recommendations made and ensure that our work assesses the current arrangements in place. Two further related significant weaknesses have been identified as part of our planning procedures and noted overleaf.
Governance	Key recommendation raised in relation to the Council's arrangements relating to, and engagement during, the external audit process. One further improvement recommendation also raised.	We will follow up progress against the key recommendation and improvement recommendation made and ensure that our work assesses the current arrangements in place.
Improving economy, efficiency and effectiveness	No key recommendations made but improvement recommendations raised.	-

8. Value for Money arrangements – Possible risks of significant VFM weaknesses – continued

In addition to the follow up of issues identified last year and noted on the previous slide, our risk assessment regarding the Council's arrangements to secure value for money identified two potential risks of significant weakness at the planning stage of our audit:

Risk 1 - Financial sustainability

Due to the financial pressures and challenges faced by the Council, there is a risk that the Council may not be able to deliver its services within the financial resources available to it, in particular:

- its arrangements for managing departmental overspends
- delivering its planned savings target for the year in full (whilst acknowledging the Council's previous positive track record of savings achieved)
- managing the increased demand and costs for both Adult Social Care and Children's Services

Risk 2 - Financial sustainability

There is an increasing MTFS budget gap which, coupled with the expected in-year overspends and relatively low level of general fund reserves risks the Council's ability to deliver a balanced outturn position in the medium term.

We will report our findings from our value for money work in our Auditor's Annual Report which we plan to issue during September 2024. We will continue to keep our VFM risk assessment under review and report any other appropriate matters up until we issue our 2023-24 audit opinion.

9. Audit logistics and team

Planning and risk assessment
May & October 2024

CGAC
29 July 2024
Audit Plan

31 July 2024
Auditor's Annual Report

CGAC
25 November 2024
Auditor's Annual Report

Year end audit
November 2024 to January 2025

CGAC
3 February 2025
Audit Findings (ISA260) Report

By 28 February 2025
2023-24 Audit Opinion target date

By 28 February 2025
Final Auditor's Annual Report on VFM arrangements (initially reported in July 2024)

Sarah Ironmonger, Key Audit Partner & Engagement Lead

Sarah leads our relationship with you and takes overall responsibility for the delivery of a high-quality audit, ensuring the highest professional standards are maintained and a commitment to add value to the Council.

Perminder Sethi, Engagement Senior Manager

Perminder plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues.

Wesley Kellingray, Engagement In–charge

Wesley assists in planning, supervising and delivering the audit fieldwork liaising with your finance teams, ensuring that the audit is delivered effectively and efficiently. Wesley also co-ordinates with the audit team on delivery of fieldwork.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

10. Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2017, PSAA awarded a contract of audit for Leeds City Council to begin with effect from 2018-19. This contract was re-tendered in 2023 and Grant Thornton has been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023-24 audit is £559,991.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed.

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/

Assumptions

In setting these fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

10. Audit fees and updated Auditing Standards

	Proposed fee 2023-24
Leeds City Council Scale Fee (per PSAA contract)	£559,991
Additional fee relating to the use of an auditor's expert for the valuation of property not included within the PSAA scale fee.	£3,000
Increased audit requirements of ISA 315 Revised – "Identifying and assessing the Risks of Material Misstatement" – (new controls requirement not included in the PSAA tender submission)	£12,500
Total audit fees (excluding VAT)	**£575,491**

Previous year

In 2022-23 the scale fee set by PSAA was £196,104, the planned audit fee for the audit was £295,604 (estimated as audit is currently on-going).

Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting.

Our proposed work and fee is per the PSAA scale fee. Should additional work be identified as necessary in addition to the ISA 315 work identified above, additional fees levied for work that we will be required to undertaken to obtain appropriate assurances. Should the need to levy such additional fees arise, these will be discussed with the Chief Financial Officer and Assistant Director of Finance and Technology on a timely basis.

10. Audit fees and updated Auditing Standards

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

> "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration." In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an audited body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset.

Council's systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

We understand that the Council will be adopting the standard from 1 April 2024 in line with many local authorities. Per our discussions, the Council is underway with preparing the necessary impact statement highlighting the expected impact to readers, as required to be disclosed in the 2023-24 financial statements.

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. Please refer to the following link:

[IFRS 16 Application Guidance December 2020 (publishing.service.gov.uk)]

11. Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

No other services provided by Grant Thornton were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

12. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management / those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud (deliberate manipulation) involving management and / or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Grant Thornton

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