Grant Thornton

The Audit Findings (ISA 260) Report for Leeds City Council

Year ended 31 March 2024

26 February 2025 – Final

Grant Thornton

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Members of the Corporate Governance and Audit Committee
Leeds City Council
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26 February 2025

Dear Members of the Corporate Governance and Audit Committee

Audit Findings for Leeds City Council for the year ended 31 March 2024

This Audit Findings report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (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 for the preparation of the financial statements.

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

We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to drive audit quality by reference to the Audit Quality Framework. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at transparency-report-2023.pdf (grantthornton.co.uk).

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

Sarah Ironmonger

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For Grant Thornton UK LLP

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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. Headlines

This section 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 2024 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.

We received the Council's draft 2023-24 accounts on 17 June 2024, slightly after the target date for draft accounts of 31 May 2024. Given the prior year audit for 2022-23 was on-going at this time, this was a real achievement for the Council. However, given this timing, the draft 2023-24 accounts could not incorporate the agreed audit adjustments identified from the 2022-23 audit and reported to the Corporate Governance and Audit Committee on 23 September 2024. Management agreed to process these adjustments along with any adjustments from the 2023-24 audit simultaneously. We have separately reported these adjustments at Appendix D.

Our audit work on the Council's draft 2023-24 accounts has been on-going since October 2024 and we remain on track to complete our work and issue our opinion by 28 February 2025 (the backstop date). Since reporting on the delays to our audit work and the Council's engagement with the external audit process in our 2021-22 Audit Findings Report, we have continued to note improvements in the timeliness of management responses to audit requests, as well as improvements in the quality of working papers provided. These improvements were evident during 2022-23 and have continued into the 2023-24 audit despite on-going pressures on Council Officer capacity to manage the introduction of the new ledger system as well as prepare budget papers and reports for 2025-26.

Our audit work was conducted as planned from October 2024 through to concluding in early February 2025. Our findings are summarised in Section Two of this report. As at the date of this report, there is one agreed adjustment which improves the Council's outturn position and useable reserves by £0.8m (Appendix D). Our audit work also noted a number of other adjustments to the primary statements, of these, one was material and related to the under valuation of primary schools by £35.6m (see page 11 for further details). Management has adjusted the final accounts for all these errors.

In addition, our work noted a number of disclosure and presentational audit adjustments which are detailed at Appendix D. Management has agreed to update the financial statements to correct these misstatements. We have identified nine recommendations for management as a result of our work in the Action Plan at Appendix B. Our follow up of recommendations from the prior year are detailed at Appendix C.

Our audit work is now complete and there are no matters outstanding, or which we would require modification of our proposed audit opinion (Appendix G) or material changes to the financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

1. Headlines

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 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; and
• Governance
	We have completed our 2023-24 Value for Money work at the Council and issued our Interim Auditor's Annual Report on 18 November 2024. Our Auditor's Annual Report was presented to the Corporate Governance and Audit Committee meeting on 25 November 2024. In our Auditor's Annual Report, we raised three key recommendations as summarised below:
	• Financial Sustainability:
	  ○ The Council should maintain its focus on the delivery of transformation and savings plans within the Children and Families Directorate including accelerating the pace and capacity to deliver savings and transformation plans in-year
	  ○ The Council should assess the growing risk to its reserves policy of continued revenue budget overspending, including the impact on its strategy to re-build the General Reserve, its approach to managing the projected DSG deficit and the potential future removal of the DSG statutory override.
	• Governance:
	  ○ The Council should strengthen its focus on budgetary control in relation to Children's Services by increasing the level of detail about performance in achieving savings and transformation plans in its public reporting at member level. Given the scale of savings and transformation plans in Children's Services, the associated risks should be identified and reflected in the Council's Strategic Risk Register.
	We also raised a further six improvement recommendations in our 2023-24 Auditor's Annual Report to further enhance existing controls and arrangements at the Council. Full details can be seen in the 2023-24 Auditor's Annual Report. We will follow up progress on the Council's implementation of these recommendations as part of our 2024-25 VFM work.
	Since issuing our Interim Auditor's Annual Report in November 2024, we have kept the Council's VFM arrangements under review. We have not noted any additional matters that we wish to bring to the attention of the Corporate Governance and Audit Committee. We will continue to keep the Council's arrangements under review until we issue our audit opinion for 2023-24.
	Further information on our VFM work is included at Section Three.

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 are unable to certify the completion of the 2023-34 audit until we have completed our work on the Council's Whole of Government Accounts (WGA) submission and completed our consideration of two objections brought to our attention by local authority electors under section 27 of the Local Audit and Accountability Act 2014. We are satisfied that these matters do not have a material effect on the financial statements for the year ended 31 March 2024.
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 continued assistance and support provided by Council's finance team and other staff during our audit.

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 have been discussed with management and will be presented to the Corporate Governance and Audit Committee on 24 February 2025.

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 service activities and is risk based, and in particular included:

- an evaluation of the Council's internal controls environment, including its IT systems and controls ; and

- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

Our audit work is now complete and there are no matters outstanding or which we would require modification of our proposed audit opinion (Appendix G) or material changes to the financial statements.

2. Financial Statements

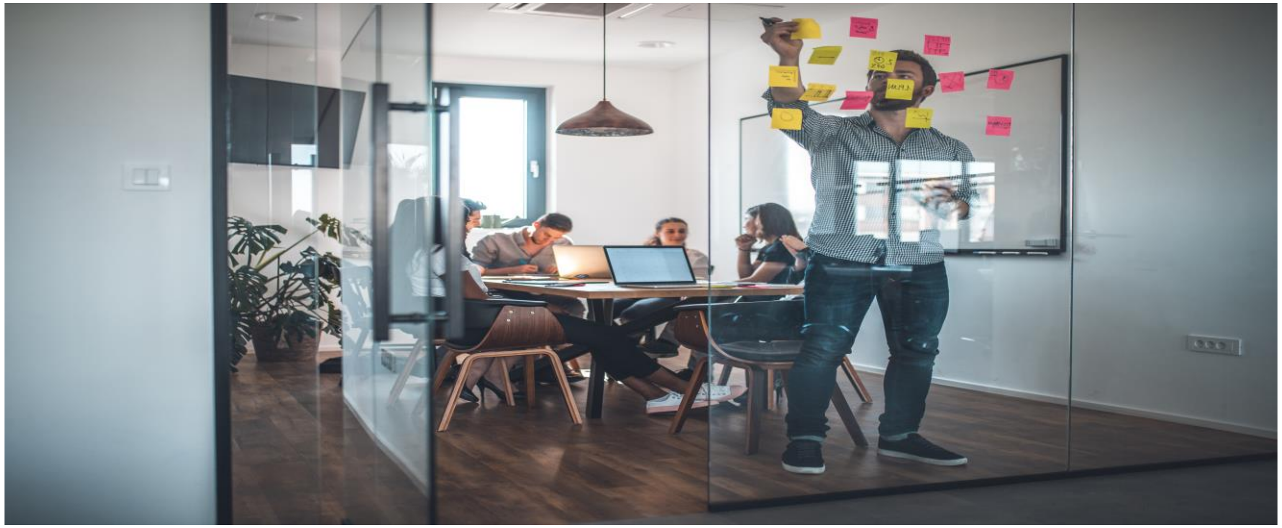
Our approach to materiality

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

We issued the audit plan for financial year 2023-24 on 4 September 2024 which set the planning materiality. At the time of setting the planning materiality in the audit plan, we based the materiality on gross expenditure on cost of services on the prior year audited financial statements.

Materiality was re-considered based on the draft accounts for 2023-24 . This review was undertaken at the post-statement engagement team meeting on 17 October 2024. Given the Council's gross expenditure on provision of services had increased in the 2023-24 draft accounts by £312.5m (14.3%) from the 2022-23 draft accounts. We revised materiality based on the gross expenditure on provision of services. This resulted in an increase to the materiality figures as shown in the table alongside.

Materiality area	Planning Materiality (£'000)	Final Materiality (£'000)	Qualitative factors considered
Materiality for the financial statements	28,432	32,496	We have determined the final materiality at 1.3% (PY 1.3%) of gross expenditure on the provision of services . We consider this as the most appropriate criteria given stakeholders interest in the Council delivering its budget.
Performance materiality	19,902	22,747	Assessed to be 70% (PY 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	1,625	This equates to 5% (PY 5%) of materiality. This is our reporting threshold to the Corporate Governance and Audit Committee for any errors identified.
Materiality for senior officer remuneration	25	25	The senior officer remuneration disclosures in the Financial Statements have been identified as an area requiring specific materiality due to its sensitive nature.



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 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 have: • made inquiries of finance staff regarding their knowledge of potential instances of management override of controls • evaluated the design and implementation of management controls over journals. This included the review of relevant controls management has in place to check journal postings • analysed the journals listing and determined the criteria for selecting high risk unusual journals This included criteria relating to journals which have not been authorised • performed a risk-based interrogation of the financial ledger to identify any unusual and potentially fraudulent transactions for testing • tested unusual journals identified through the application of our risk-based approach 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 applicable • understood the ledger integration with relevant sources and sub-systems to identify how management may be able to intervene in the journals posting process and post fraudulent entries. In performing the procedures above, we identified a population of journals to test using data analytic software to analyse journal entries and to split large batch journals into smaller sets of transactions that support targeted testing based on specific risk criteria assessed by the audit team. These criteria included but not limited to: • Year-end and Post year-end journals • Material journals • Journals posted by senior management Application of these routines and supplementary procedures identified a total sample of 55 journals to test. Our audit work in this area is now complete and has not identified any issues in respect of management override of controls except one: • Officers are able to post journals without these being independently authorised. Without proper authorisation controls, there is an increased risk of inappropriate journal entries being posted to the general ledger which could lead to financial irregularity. We understand management has in place compensating controls to review and identify journals posted and consider the risk of irregularity to be low. However, we consider a formal journal authorisation process should be in place to minimise the risk of inappropriate journals being posted and have raised a recommendation in this regard at Appendix B. Our audit work testing journals did not identify any issues and for all journals subject to review, we concluded that they were appropriate transactions.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Risk of fraud in revenue recognition and expenditure (Risk relating to the Council) **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 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 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 Authority, 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 taxpayer's funds • the culture and ethical frameworks of local authorities, including at the Council, mean that all forms of fraud are seen as unacceptable.	As part of our final accounts audit process, we have reconsidered our rebuttal of both revenue and expenditure recognition and consider the rebuttal still remain appropriate. Notwithstanding that we have rebutted these risks, we have undertaken procedures to test revenue and expenditure 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 the 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 supporting evidence. **Taxation and non-specific grant income** • Income for national non–domestic rates and council tax is predictable and therefore we conducted substantive analytical procedures • For other grants we sample tested items for supporting evidence and checked the appropriateness of the accounting treatment was in line with the CIPFA Code. **Expenditure** • Agreed, on a sample basis, non -pay expenditure and year end payables to supporting evidence • Undertook detailed substantive analytical procedures on pay expenditure. 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. Our audit work in now complete and has not identified any issues in respect of risk of fraud in recognition of revenue or expenditure except the following matter: Business Rates – Retail Relief – our sample testing of 25 items identified 5 instances of retail relief being granted without a formal review each year to confirm entitlement. Central government guidance on this relief was introduced during Covid-19 to ensure businesses were provided retail relief promptly without any formal application process. We understand this guidance has not been updated and the Council continues to automatically pay this relief. Given Covid-19 ended some time ago, the Council should introduce procedures to review relief granted periodically to confirm it remains valid. We have raised a recommendation in this regard at Appendix B.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
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 (some £6.6 billion) and the sensitivity of this estimate to changes in key assumptions. The Council holds both specialised and non-specialised buildings within its portfolio. The specialised assets comprise schools and leisure centres among others. The valuation approach is depreciated replacement cost (DRC) with the key valuation assumptions being the rebuild cost, building size and adjustments for obsolescence (buildings age, condition & functionality). The council also holds non-specialised assets such as car parks and offices. Council dwellings are also considered non-specialised. Management 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 valuation programme is used. Overall, we identified the closing valuation of land and buildings, including council dwellings as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our work, we have: • evaluated the design and implementation of management controls around processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation experts • discussed with the valuers the basis on which the valuation was carried out • challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding • engaged our own auditor's valuation expert to assess the instructions issued to the Council's valuers, the Council's valuers' report and the assumptions that underpinned the valuation • tested, on a sample basis, revaluations made during the year to see if they had been posted 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 their carrying values are not materially different to current value at year end • considered, 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. The Authority has a valuation date of 1 January for most assets. We have considered the arrangements management has used to ensure the valuation remains materially appropriate as at 31 March 2024 from this date. • agreed, on a sample basis, the Gross internal Areas (GIAs) to records held by the estates management function • evaluated the assumptions made by management and the management experts when determining the closing valuation of investment properties at fair value as at 31 March 2024 • for non-specialised properties valued on the existing use value (EUV) basis, obtained market comparable information to assess the appropriateness of market rents and yields selected by management's expert and used in the valuation calculations. 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. In addition, by not having the valuation date set at 31 March, this involves a lot of work by both the Council and ourselves to ensure there is no material movement from 1 January to 31 March. We have reported this matter for the last few years in our Audit Findings Report including last year recommending that 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 agreed to consult with the Council's valuers. The valuation date used for the 2023-24 accounts remains the same, 1 January 2024. We consider management should revise its valuation date for the valuation of fixed assets to the year end, 31 March each year and have commented as such in the follow up of prior year recommendations at Appendix C. Our audit work in this area is now complete and has identified the following matters: • Council dwellings – our review of council dwellings noted that 334 properties did not have a beacon number allocated (based on similar council houses or comparable properties determined by the valuer). We understand management had not allocated a beacon to these properties as they are awaiting valuation. The Council should allocate beacon numbers once properties are built to ensure they are correctly categorised. We have raised a recommendation in this regard at Appendix B.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Closing valuation of land and buildings, including Council dwellings continued	• Land and Buildings valuation – our review of school valuations identified some significant changes in valuations compared to last year which informed part of our sample selection. Management in reviewing the samples selected noted that the KEL system used by the Council to record asset data had incorrectly extracted the reference code instead of the construction rate. We understand this is a software error and management are in liaison with the KEL system providers to correct. This error resulted in an understatement of £35.6m. Management has agreed to correct this error which is recorded at Appendix D. It is important for management to review the source information used for valuations to ensure the data is accurate and complete and to avoid valuation errors. We have raised a recommendation in this regard at Appendix B. • Land and Buildings valuation – our sample testing of 41 land and building valuations noted that floor plans showing the area of each asset were not available for 36 land and buildings reviewed. We understand from management that for school assets, the majority are cross referenced to either existing floor plans, are measured by the valuer (based on a rolling programme each year), or checked against the Concerto system within Children's and Families. For non school assets, the Council has relied on the KEL system which records the gross internal area of each building which we understand has been populated over time but there is no supporting floor plan data to evidence the gross internal floor area which is a key element in the valuation. We understand from management that the Council's valuers who periodically undertake valuations of individual assets, consider the floor area of each building in undertaking their valuation, along with any additions and demolitions which are then updated to the KEL system. In this way, management consider gross internal floor areas are appropriately recorded. We consider management should as part of the valuation process, obtain updated floor plan information from their valuers to formally evidence and support the data contained within the KEL system. We have raised a recommendation in this regard at Appendix B. • Assets held for sale – our review of assets held for sale in Note 16.2 identified some council houses held for sale had been excluded from the total. This error arose as the working paper had erroneously excluded a number of council houses held for sale amounting to £9,988k. Management is adjusting for this error which is also included at Appendix D. • Land and Buildings valuation – our sample testing of 41 land and building valuations noted an isolated error for a primary school valuation, the valuation calculation had excluded the obsolescence adjustment for the main building resulting in the school being overvalued by £2,420k. Management has agreed to adjust for this error which is also included at Appendix D. • Land and Buildings valuation – our sample testing of 41 land and building valuations noted a decrease in the value of Leeds City Museum which we queried with management. Following management review and discussion with the Council's valuer it was noted that the Museum had been valued using the incorrect build cost and was updated. This resulted in a increased valuation of £4.5m. Management has agreed to adjust for this error which is also included at Appendix D. • Council dwellings – the Council's housing stock is valued by the District Valuer Service (DVS) part of the Valuation Office Agency (VOA). Valuations are undertaken as at 1 January each year and then passed to the Council's in-house valuation team who then apply these valuations to the Council's housing stock by ward. Given our earlier comments on page 10 in respect of moving to a valuation date of 31 March, the Council should consider the appropriateness of allowing the DVS to complete their work at 31 March and undertaking the complete valuation of the Council's housing stock by ward and freeing up capacity for the Council' inhouse valuation team. We have raised a recommendation in this regard at Appendix B.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the Authority's defined benefit pension scheme The Council's pension fund net balance is considered a significant estimate due to the size of the numbers involved (£98.2m asset at 31 March 2023 after applying IFRIC14 accounting principles) 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). However, for the first time since International Financial Reporting Standards have been adopted in the public sector, the Council (in common with a number of local authorities in 2022-23) has had to consider the potential impact of IFRIC 14 on the Council's IAS 19 accounting. This has continued in 2023-24 due to a net pension surplus for the year ended 31 March 2024 of £208.0m. IFRIC 14 is the accounting principle that limits the recognition of a defined benefit asset in the financial statements. As a result of this, we have assessed the recognition, valuation which is a significant estimate and disclosures of the Council's share of the pension asset as a significant risk. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is verifiable. The actuarial assumptions used are the responsibility of the Council 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 IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 / IFRIC 14 estimates due to the assumptions used in their calculation. With regard to these assumptions, we have therefore identified valuation of the Council's share of the West Yorkshire Pension Fund as a significant risk.	We have: ▪ updated our understanding of the processes and controls put in place by management to ensure that the Authority's share of the pension fund is not materially misstated and evaluated the design of the associated controls ▪ evaluated the instructions issued by management to their management expert (AON) for this estimate and the scope of the actuary's work ▪ assessed the competence, capabilities and objectivity of the actuary (AON) who carried out the Authority's pension fund valuation ▪ assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the net pension balance ▪ tested the consistency of the pension fund figures and disclosures in the draft financial statements with the actuarial report from the actuary ▪ undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (PwC as auditor's expert) and performing any additional procedures suggested within the report ▪ evaluated the continued appropriateness of recognising a pension asset position against the Code and IFRIC 14 criteria ▪ assessed the calculation performed to identify the IFRIC 14 net pension asset ceiling and where appropriate, challenged management on the validity and appropriateness of the assumptions used in the calculation ▪ reviewed the accounting for any unfunded liability element of LGPS in line with Code guidance and accounting principles ▪ requested 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. Our audit work in this area is now complete and identified the following matters: • Note 10.1b disclosure (accounts page 39) – The note states that 'the council's net pension liability in relation to WYPF pensions has decreased by £114m'. This should read the council's net pension assets in relation to WYPF pensions has increased by £114m. This has been recorded at Appendix D as a misclassification and disclosure change. Management has agreed to update Note 10.1b for this error.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the Authority's defined benefit pension scheme continued	• Scheme asset valuation - The Pension Fund Auditor identified that scheme assets at 31 March 2024 were understated by £103.6m. Leeds City Council's share of this equates to approximately £25m. West Yorkshire Pension Fund has advised the Council that they will be supplying final asset valuations to AON and commissioning a revised IAS19 report to correct for this error. Management has agreed to update the Leeds City Council accounts to correct for this error using the revised figures which have now been received. This error has been recorded as adjusted misstatement at Appendix D. • Strain Payments – Management has confirmed that the strain payment data provided by West Yorkshire Pension Fund to the actuary (AON) was understated by some £7m. The Council has agreed with West Yorkshire Pension Fund that the actuary would include an amended figure for strain payments in the revised IAS19 report. Management has agreed to update the Leeds City Council accounts to correct for this error using the revised figures which have now been received. As noted above, the Council has received the revised IAS 19 report from the actuary correcting the issues reported above. Given the changes made by the actuary, there are various amendments which flow through and impact on the pensions disclosures within the accounts. These amendments have been made by management and are summarised at Appendix D. No other issues have been noted from our work on pensions. Auditor Commentary on Accounting for the Pension Fund Surplus/Asset in the Council's financial statements in line with IFRIC14 See pages 14 -15 overleaf where this is reported. It is important to note that any potential issues or adjustments that may arise from the Council's accounting for its share of the pension fund <u>would not result in any impact on the Council's useable reserves</u>.

2. Financial Statements - Significant risks

Auditor Commentary on Accounting for the Pension Fund Surplus/Asset in the Council's financial statements

Valuation of the Authority's defined benefit pension scheme (continued):

This section covers:

(1) Background to the issue and relevant accounting principles

(2) Our observations of the draft accounts and actuary reports presented for audit

(3) Summary position

(1) Background to the issue and relevant accounting principles:

As indicated in our Audit Findings Report last year, for the first time since International Financial Reporting Standards (IFRS) were adopted in the public sector, the Council's net defined benefit pension fund was in a surplus or a net asset position in 2022-23 (in common with a number of local authorities in 2022-23 and 2023-24) as opposed to the significant liability balance that has been reported in previous years. This trend has continued in 2023-24

According to the accounting standard, IAS19 (Employee Benefits), an entity shall recognise the net defined benefit liability / asset in the statement of financial position. Therefore, whether it is a liability (which was the case in the past) or an asset , according to IAS19, it should be recognised in the balance sheet.

IAS19 states when an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:

(a) the surplus in the defined benefit plan

(b) the asset ceiling, determined using the discount rate specified in IAS19.

The asset ceiling is defined as the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

IFRIC-14 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction) provides guidance on amounts that can be recognised in the financial statements, when there is a surplus /net asset position.

It is significantly unlikely that there will be refunds from the plan to the employer in a local government defined benefit scheme. There are no exit plans in the foreseeable future as these are public sector pension plans that would continue in perpetuity. There could be a possible situation whereby there could be potential reductions in future contributions to the plan.

The economic benefit available as a reduction in future contributions can be calculated as follows:

- present value of IAS 19 future service costs (calculated based on IAS 19 assumptions as at the balance sheet date), less
- present value of future service contributions if these are classed as a minimum funding requirement.

By doing this, the asset ceiling can be determined (point b above)

Management then need to consider what should be recognised / disclosed in the financial statements based on accounting principles stated above.

2. Financial Statements - Significant risks

Auditor Commentary on Accounting for the Pension Fund Surplus/Asset in the Council's financial statements

(2) Our observations of the draft accounts and actuary reports presented for audit

Our observations highlighted that:

- According to the actuary report for year ended 31 March 2024, the funded asset surplus was £208.0m and the unfunded defined benefit obligation was £96.9m (see last point below). Therefore , according to accounting principles including IFRIC14 highlighted at page 14, the lower of the surplus or the asset ceiling should be recognised on the Council's balance sheet.
- The asset ceiling calculation for 2023-24 has been determined by the actuary who has concluded that it is in excess of the net pension asset valuation of £208.0m which management considered and reviewed. Therefore, applying the principles at page 14, the lower of (a) and (b) is the surplus of £208.0m. Therefore, a pension asset of £208.0m should be recognised on the balance sheet for the year ended 31 March 2024 which is in line with applicable accounting principles. As part of our audit procedures, we considered the asset ceiling calculation and noted no issues.
- In 2022-23, the same principles were applied. The fund surplus was again lower than the asset ceiling and the Council recognised the surplus asset (funded) which was £98.2m.
- As indicated above, there was an unfunded defined benefit obligation of £96.9m. Under IAS19 (relevant accounting principles) , a funded asset position can only be netted off against an unfunded liability when, (a) the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and (b) the entity intends to settle the obligations on a net basis or to release the surplus in one plan and settle its obligations under the other plan simultaneously. Our work indicated that none of these apply to the Council as last year. The Council has correctly reported this separately on the balance sheet as a long-term liability.

(3) Summary position

Pension Fund Surplus/Deficit?	Asset ceiling calculated by the Actuary?	Lower of the (a) Asset Ceiling (b) Surplus recognised	Unfunded Defined benefit obligations correctly accounted for	Accounting treatment correct in line with IAS19 and IFRIC14
Surplus of £208.0m	Yes. Calculated in excess of £208m.	Yes. Lower figure is £208.0m. Therefore, surplus is restricted to £208.0m for recognition	Yes Separately recognised as a liability (£96.9m)	Yes

2. Financial Statements – other issues and risks

This section provides commentary on other issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Auditor commentary and view
IFRS 16 implementation The Financial Reporting Advisory Board (FRAB) agreed for the deferral of IFRS 16 to 2024- 25. Following consultation and agreement by FRAB, the Code will provide for authorities to opt to apply IFRS 16 in advance of the revised implementation date of 1 April 2024. If management elect to implement IFRS 16 from April 2023 (early adoption) then in the 2023-24 accounts 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, along with the estimated impact of IFRS 16 on the accounts.	The Council has reported on this Standard in Note 26 - New accounting standards not yet implemented and states that the Council has chosen not to implement the changes until 2024-25. It also notes that the changes will apply prospectively from April 2024 onwards and the Council does not yet have sufficient information to quantify the likely impact on its balance sheet of the new assets and liabilities to be recognised. We understand this position has arisen due to capacity pressures on the finance team. Management has however, in the most recent update to the draft accounts included the impact specifically of its PFI liabilities. This is not in compliance with Code 3.3.4.3 which states that an authority shall disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (ie on or before 1 January 2024 for 2023/24). In our view, understanding the impact of the new Standard is more complex due to various factors including for example exemptions and consideration of peppercorn rents. Given we are now in February 2025, some one month to the year-end, we consider it important for the Council to fully understand the impact of IFRS 16. We have made a recommendation (Appendix B) that the Council should accelerate its work to fully quantify the impact of IFRS 16 on its financial statements as soon as possible. There is no impact on the 2023-24 audit.
Equal pay claims and the potential liabilities: • There has been recent publicity in the local government sector where certain councils have accumulated equal pay claims. In some cases, these claims have resulted in recognising significant liabilities on the balance sheet. This has created significant financial and cashflow challenges during an economic crisis when public services have already been impacted due to increasing service demands and cost pressures. • As part of our 2022-23 audit last year, we inquired on such existing equal pay claims at the Council, directing our inquiries to the S151 Officer and the Chief Legal Officer. • Our objective was to identify any unrecorded liabilities in relation to equal pay claims at the Council.	We continue to engage with senior management on equal pay claims and any associated potential liabilities. As part of our on-going audit work, we are continuing to consider the impact of any potential equal pay claims and whether a liability is required to be recognised or associated disclosures in the draft financial statements for the year ended 31 March 2024. Our work in this area remains on-going and will need to be appropriately concluded before we can finalise our 2023-24 accounts audit. We have included a specific management representation on this matter within the proposed letter of representation at Appendix F.
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.	Our detailed 2023-24 IT work was undertaken by our specialist IT team. Our detailed findings were reported in our IT Audit Findings Report dated 12 November 2024 and included management responses to each of the recommendations noted. Our IT Audit Findings Report was presented to the Corporate Governance and Audit Committee at its meeting on 25 November 2024.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Council Dwellings valuation: £2,509m	The Council is required to revalue its Council housing in accordance with Ministry of Housing, Communities & Local Government (MHCLG) ,Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged its valuer to complete the valuation of these properties. The valuation was at 1 January 2024 and valued Council Housing at £2,509m.	• The Council's RICS qualified valuer has 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 2023-24 valuation. • We have assessed the Council's 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 property valuation specialist's information we use and national reports and held discussions with our own valuation specialist as relevant. These discussions are still on going. We have also challenged management and the Council's valuation expert on valuation differences as identified through our sensitivity analysis work using other relevant indices when applicable. These discussions remain on-going, and we intend conclude our work before we issue our audit opinion. There are no issues arising from our work that we wish to bring to the attention of management or the Corporate Governance and Audit Committee in terms of impact to the financial statements audit due to key judgements and estimates.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious **(Green)**

Assessment

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

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Other Land and Buildings valuation: £2,639m	Other land and buildings comprises £2,294m 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. The remainder of other land and buildings (£345m) are not specialised in nature and are required to be valued at existing use value (EUV - £73m) for example car parks, and open market value (OMV - £272m) 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 2024 with two external valuers valuing the Waste to Energy Plant. Approximately 93% of total assets (by value) were revalued during 2023-24. Management has also considered the year end value of non-valued properties, and the potential valuation change in the assets not revalued at 31 March 2024, to determine whether there has been a material change in the total value of these properties. The total year end valuation of Other land and buildings was £2,639m.	• 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 commented again on this matter in the follow up of prior year recommendations at Appendix C • In relation to assets not revalued in the year, we have compared the valuation specialists property valuation report and held discussions with our own valuation auditor's expert. We have also challenged management and the Council's valuation specialists on valuation differences identified through our work. This work currently remains on-going. There are no other issues arising from our work that we wish to bring to the attention of the Corporate Governance and Audit Committee.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious **(Green)**

2. Financial Statements - key judgements & estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
This Year: Net pension Asset after asset ceiling calculation £208.0m – see page 15 Prior Year: Net pension Asset after asset ceiling calculation £98.2m	The Council's net pension asset as at 31 March 2024 after the asset ceiling calculation is £208.0m (PY asset after asset ceiling calculation £98.2m). The Council continues to engage AON to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 2022, utilising key assumptions such as life expectancy, discount rates, salary growth and pension increase rate. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund asset/liability, small changes in assumptions can result in significant valuation movements. As indicated above and our reporting at pages 12-15, it is evident how the significant estimate could change due to changes in assumptions.	We have: • Assessed the competence, capability and objectivity of management's expert, AON • Assessed the actuary's approach taken and deemed it reasonable • Used PwC as an auditor's expert to assess the management actuary and assumptions made by the actuary (see table below) • Confirmed the completeness and accuracy of the underlying information used to determine the estimate • Confirmed the reasonableness of the Council's share of pension assets • Confirmed the reasonableness of the decrease in the liability estimate • Confirmed the adequacy of the disclosure of the estimate in the financial statements.	We consider management's process is appropriate (and key assumptions are neither optimistic or cautious **(Green)**

Assumption	Actuary Value	* PwC assessment	Assessment
Discount rate	4.7% to 4.8%	See comment below	● Green
Pension increase rate	2.5% to 2.6%	See comment below	● Green
Salary increase rate	1.00% p.a. to 1.50% p.a. above CPI plus promotional salary Increases	See comment below	● Green
Life expectancy – Males from age 65	Pensioners : 21.0 -22.0 Non-pensioners: 22.2 – 22.9	See comment below	● Green
Life expectancy – Females from age 65	Pensioners : 23.7 -24.5 Non-pensioners: 25.0 – 25.8	See comment below	● Green

*PwC report (auditor's expert) for year ended 31 March 2024 , overall findings has commented on the AON (management actuary/expert) assumptions as follows: "*We are comfortable that the methodologies used to establish assumptions will produce reasonable assumptions as at 31 March 2024 for all employers*".

Our work has not identified any evidence to conclude that management's processes and key assumptions are not appropriate.

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income: **£1,397.9m** ***(PY £1,280.3m)*** **Grants received in Advance:** **£3.0m** ***(PY £3.2m)***	Management has taken into account three main considerations in accounting for grants: 1. 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. 2. 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 3. 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. There may be judgements over the accounting treatment. Different conclusions may be reached by the Council depending on how they have applied any discretion in administering the schemes and application of Code guidance.	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. As part of our audit work, 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, 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 • assessed for the 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 • assessed the adequacy of disclosure of grants received and judgement used by management as part of our detailed testing. Our audit work has not identified any matters which require reporting to the Corporate Governance and Audit Committee except for: • Note 8 : General Government Grants - During the course of the audit the Council identified a classification error relating to Adults and Health and Children's and Families element of the Social care grant between non-ringfenced and net cost of services amounting to £29,963k. Management has agreed to adjust for this classification error which is also included at Appendix D.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious **(Green)**

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Properties valuation: £71.7m (PY £79.2m)	Investment properties are those that are used to earn rentals or for capital appreciation. Investment properties are measured at fair value. The fair values for investment properties are obtained from market valuations. The value of the Council's investment properties has fallen from £79.2m at 31 March 2023 to £71.7m at 31 March 2024. The reduction is mainly due to disposals of £4.5m during the year and changes in classification of £1.3m.	Our audit work on investment properties included: • evaluating management's processes and assumptions for the calculation of the valuation, the instructions issued to valuation experts and the scope of their work • evaluating the competence, capabilities and objectivity of the valuation expert • discussing with the valuer the basis on which the valuation was carried out including the use of market rental information • challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engaging our own auditor's expert valuer to assess the instructions issued to the Authority's valuer, the Authority's valuer's reports and the assumptions that underpin the valuations • testing revaluations made during the year to see if they had been input correctly into the Authority's asset register • considering, 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. Our audit work is now complete, and no issues have arisen in relation to investment properties except for the following matter: • Our audit work noted that of total investment properties of £64.3m, the Authority had revalued £59.7m in accordance with IAS 40 leaving £4.5m of properties not being revalued in year. Whilst investment properties not revalued in year is not considered material, there remains a risk that the value of investment properties may be incorrectly stated at the year end. International Accounting Standard 40 (IAS40) requires the Council to review its investment properties not revalued in year to be satisfied that there are no changes in circumstances or other factors which could lead to a change in their fair value. Where any such indicators are present, a formal revaluation should be undertaken. Whilst the Council has provided a list of investment properties not revalued in year, we have not received a formal evaluation by management to confirm there has not been any significant changes requiring a valuation. We understand from management that the Council undertakes an impairment review and considers as part of this, an analysis of capital spend as well as reviewing the capital receipts programme which feeds into reviewing if an investment property requires a revaluation. This matter was raised last year in our Audit Findings Report and we have commented on this in the follow up of prior year recommendations at Appendix C.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious **(Green)**

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT, related to business process controls, relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT system	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks / other risks
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	
SAP	Detailed ITGC assessment (design effectiveness)					N/A
FMS	Detailed ITGC assessment (design effectiveness)					N/A
Capita Academy	Detailed ITGC assessment (design effectiveness)					N/A
Civica CX	Detailed roll forward ITGC assessment (design effectiveness)					N/A
Active Directory	Detailed ITGC assessment(design effectiveness)			Not In Scope	Not in Scope	N/A

We also performed specific procedures in relation to the Cyber Security arrangements during the audit period, We observed the following results:

	Result	Related significant risks / risk / observations
Cyber Security Review	No deficiencies identified	N/A

Assessment
- Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Non-significant deficiencies identified in IT controls relevant to the audit of financial statements
- IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Not in scope for testing and N/A

The audit team has considered the deficiencies identified above and do not consider them significant enough to have an impact on our audit approach as they are non-significant deficiencies. We have also performed a fully substantive audit approach with no reliance on operating effectiveness of controls, whether they are automated or manual controls.

Our detailed findings were reported in our IT Audit Findings Report dated 12 November 2024 and included management responses to each of the recommendations noted. Our IT Audit Findings Report was presented to the Corporate Governance and Audit Committee at its meeting on 25 November 2024.

2. Financial Statements - other communication requirements

We set out alongside 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 significant incidents in the year and no 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.
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	The proposed letter of management representation is included at Appendix F. As noted on page 16, additional representations have been requested in relation to Equal Pay liabilities.
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 except for a small number of presentational disclosure amendments which have been processed by management and these are included at Appendix D.
Audit evidence and explanations / significant difficulties	We have noted significant improvements in the timeliness of management responses to audit requests, as well as improvements in the quality of working papers when compared to prior year audits. These improvements were evident during 2022-23 and have continued into the 2023-24 audit. There are no significant difficulties to report in terms of receipt of audit evidence or for information and explanations requested.
Other matters	Our audit work identified the following additional matters: • Cash Flow Statement - the Cash Flow Statement does not fully comply with the disclosure requirements required by the CIPFA Code of Practice on Local Authority Accounting 2023-24. The Council uses the indirect method and the current presentation omits items a to c (Code para 3.4.2.75). The Cashflow Statement should be updated to start with net surplus or deficit on the provision of services. The Council has agreed to update the Cash Flow Statement and provide appropriate disclosures to comply with the Code. This is included as a disclosure amendment at Appendix D.

2. Financial Statements - other communication requirements (continued)

Issue	Commentary
Other matters continued	• Note 7.5 – Subjective analysis of comprehensive income and expenditure. As part of our creditors testing, our audit work identified income from Section 38 developer contributions amounting to £0.8m had not been credited to the CIES. The £0.8m had been incorrectly shown as receipts in advance rather than income in the year. This issue was initially noted in our 2022-23 audit. Management has agreed to correct for this error. This is included as an adjustment at Appendix D. • Vehicles, Plant and Equipment – our review of vehicles, plant and equipment in the asset register noted that there were 422 assets with a net book value of £nil (gross book value before depreciation £27m) where assets had been fully depreciated, however, we understand from management that these assets continue to be in use. This indicates that the asset lives are inappropriate and should be extended to reflect the remaining useful life expected from these assets. Management should formally review the asset register each year and revise asset lives where assets are likely to be used beyond their existing life (or reduced where assets are not expected to last as planned). We have raised a recommendation in this regard at Appendix B. Following the identification of this matter management has undertaken further work and identified an additional 918 assets with a net book value of £nil (gross book value £97.5m). We understand management will review these assets during 2024-25 and update the asset register accordingly. • Bank Reconciliations - as part of our audit procedures, we requested the bank reconciliation relating to the Nat West General Account for April 2024. This request was made on 9 December 2024 and was not available at that time, some eight months after the period to which it relates. We understand this delay has been due to work pressures within the central finance team. Without the timely production of bank reconciliations, there remains a risk that the Council may be unable to effectively manage its cash position. There also remains a risk of fraud and irregularity. We have raised a recommendation in this regard at Appendix B. Management has informed us that the new ledger system (Microsoft Dynamics) includes an integrated bank reconciliation module which is automated and will improve the timely production of bank reconciliations from May 2025.

2. Financial Statements: 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	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. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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. 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: • 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. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • 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. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement (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 review of the Narrative Foreword included in the draft accounts noted no issues except a few minor differences in the figures disclosed which management has agreed to update. Our review of the Annual Governance Statement noted that the three key recommendations made in our 2023-24 Auditor's Annual Report issued in November 2024 had not been reported within the 2023-24 Annual Governance Statement. Management is updating the 2023-24 AGS to incorporate the key recommendations and findings from our 2023-24 Auditor's Annual Report. As we recommended last year, the Council is finalising its AGS at the same time as the accounts are signed following the audit, an approach we generally see at other authorities. No other issues were noted from our work. We plan to issue an unmodified 'clean' opinion in this respect as reported at Appendix G.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • 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). We have nothing to report on these matters except that we raised three key recommendations as part of our value for money work within our 2023-24 Interim Auditor's Annual Report dated 18 November 2024. The three key recommendations related to Financial Sustainability (two recommendations) and Governance (one recommendation). Further details can be seen in Section 3 – Value For Money Arrangements.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. The NAO requires this work to be completed once the audit opinion is provided on the financial statements. This work currently remains outstanding and is targeted to be delivered once we have concluded the audit of the financial statements.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2023-24 audit of the Council in the audit report, as detailed at Appendix G, until we have completed our work on the Council's Whole of Government Accounts (WGA) submission and completed our consideration of two objections brought to our attention by local authority electors under section 27 of the Local Audit and Accountability Act 2014. We are satisfied that these matters do not have a material effect on the financial statements for the year ended 31 March 2024.

3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2023-24

The National Audit Office issued its guidance for auditors in April 2020. 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:

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. VFM: our procedures and conclusions

We have completed our 2023-24 Value for Money work at the Council and issued our Interim Auditor's Annual Report on 18 November 2024. Our Auditor's Annual Report was presented to the Corporate Governance and Audit Committee meeting on 25 November 2024. In our Auditor's Annual Report, we raised three key recommendations as summarised below:

- Financial Sustainability:
  - The Council should maintain its focus on the delivery of transformation and savings plans within the Children and Families Directorate including accelerating the pace and capacity to deliver savings and transformation plans in-year
  - The Council should assess the growing risk to its reserves policy of continued revenue budget overspending, including the impact on its strategy to re-build the General Reserve, its approach to managing the projected DSG deficit and the potential future removal of the DSG statutory override.
- Governance:
  - The Council should strengthen its focus on budgetary control in relation to Children's Services by increasing the level of detail about performance in achieving savings and transformation plans in its public reporting at member level. Given the scale of savings and transformation plans in Children's Services, the associated risks should be identified and reflected in the Council's Strategic Risk Register.

We also raised a further six improvement recommendations in our 2023-24 Auditor's Annual Report to further enhance existing controls and arrangements at the Council:

- Financial Sustainability:
  - The Council should consider the impact of its changing resource base, its transformation priorities, the potential for further automation of service delivery, its need for improved contract management skills and its future operating model on its future workforce. Its workforce strategy should be developed around these future needs
- Governance:
  - The Council should review its arrangements to monitor the operation of the Officer Code of Conduct so that i) breaches of the Code of Conduct can be reviewed across the organization; ii) declarations of interest made by officers of the council are readily available for review by appropriate officers across the organization; and iii) officers who authorise procurement or recruitment decisions routinely affirm that they do not have any conflict of interest when making a decision
- Improving Economy, Efficiency and Effectiveness:
  - The Council should improve its performance management by developing an integrated approach to performance management which makes appropriate links between its Best City Ambition (BCA) framework and its corporate and service plans, finance and risk planning. Formal reporting should be to the Executive and Scrutiny on at least a quarterly basis
  - The Council should improve the pace and focus of its efforts to improve data governance and data quality weaknesses
  - The Council should address under-performance of statutory Education, Health and Care Plan (EHCP) assessments and plans
  - The Council should improve its procurement and contract management arrangement by:
    - ensuring the contracts register is accurate, monitored, and kept updated used by all services
    - ensuring that contracts are reviewed to confirm data processing agreements comply with contract terms and conditions and GDPR regulations.

Full details can be seen in the 2023-24 Auditor's Annual Report. We will follow up progress on the Council's implementation of these recommendations as part of our 2024-25 VFM work.

Since issuing our Interim Auditor's Annual Report in November 2024, we have kept the Council's VFM arrangements under review. We have not noted any additional matters that we wish to bring to the attention of the Corporate Governance and Audit Committee. We will continue to keep the Council's arrangements under review until we issue our audit opinion for 2023-24.

4. Independence and ethics

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers and managers). In this context, we disclose the following to you:

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 E.

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)

Business relationship

Grant Thornton UK LLP leases its offices in Leeds City Centre. The offices on the second floor and part of the first floor are located at No 1 Whitehall Riverside, Whitehall Rd, Leeds LS1 4BN. As part of routine business expenses in running these offices, Grant Thornton UK LLP pays business rates (non-domestic rates) to Leeds City Council.

We have considered the ethical standards and any threats to our independence resulting from these payments. Given the sums involved are insignificant to both Leeds City Council and Grant Thornton UK LLP, and given they are part of routine business operations, we have not noted any threats to our independence.

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following services were identified from the beginning of the financial year to February 2025 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:			
No services provided	-	-	-
Non-audit related:			
No services provided	-	-	-

Independence and ethics (continued)

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council. However, Grant Thornton UK LLP leases its offices in Leeds City Centre. The offices are located at No 1 Whitehall Riverside, Whitehall Rd, Leeds LS1 4BN. As part of routine business expenses in running these offices, Grant Thornton UK LLP pays business rates (non-domestic rates) to Leeds City Council. We have considered the ethical standards and any threats to our independence resulting from these payments. Given the sums involved are insignificant to both Leeds City Council and Grant Thornton UK LLP, and given they are part of routine business operations, we have not noted any threats to our independence. Following this consideration, we can confirm that we are independent and are able to express an objective opinion on the financial statements.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council , senior management or staff that would exceed the threshold set in the Ethical Standard.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

Appendices

A. Communication of audit matters to those charged with governance

B. Action plan – Audit of Financial Statements

C. Follow up of prior year recommendations

D. Audit Adjustments

E. Fees and non-audit services

F. Management Letter of Representation

G. Audit opinion

A. Communication of audit matters to 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	•	
Confirmation of independence and objectivity	•	•
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 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 involving management and/or which results in material misstatement of the financial statements		•
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 Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified the following recommendations for the Council as a result of issues identified during the course of our financial statement audit. We have agreed our recommendations with management, and we will report on progress on these recommendations during the course of the 2024-25 audit. The matters reported here are limited to those areas that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● Medium	1. Journals Officers are able to post journals without these being independently authorised. Without proper authorisation controls, there is an increased risk of inappropriate journal entries being posted to the general ledger which could lead to financial irregularity. We understand management has in place compensating controls to review and identify journals posted and consider the risk of irregularity to be low. However, we consider a formal journal authorisation process should be in place to minimise the risk of inappropriate journals being posted.	**Recommendation** We recommend a formal process is introduced to ensure journals are independently reviewed before being posted. **Management response** The council requires dual authorisation for those transactions (such as orders and payments) which are considered to be high risk but it has assessed journals in the ledger as being low risk. The low risk assessment is based on the limited scope for individuals to benefit from posting inappropriate journals, and the sound budget monitoring arrangements in place which would identify any material inappropriate journals where posted deliberately or in error. The Council's budget monitoring arrangements are subject to annual review by Grant Thornton through the VFM assessment and their review of a sample of journals which forms part of the annual audit of the financial accounts has not identified any inappropriate journals and therefore confirming the Council's assessment that this is a low risk area. Introducing a dual authorisation requirement would bring an increased administrative burden which does not appear to be justified given the limited nature of the risk. However the council will re-assess the level of risk associated with this and consider: 1.Transaction types as part of the implementation of its new ledger system and the possibility of additional verification controls. 2.Implementing a risk based approach to reviewing the appropriateness of journals. Specifically this will be addressed through the Council's Integrity Forum which is an officer panel chaired by the Deputy Chief Officer (Financial Services).

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	**2. Vehicles, Plant and Equipment** Our review of vehicles, plant and equipment in the asset register noted that there were 422 assets with a net book value of £nil (gross book value before depreciation £27m) where assets had been fully depreciated and continue to be in use. This indicates that the asset lives are inappropriate and should be extended to reflect the remaining useful life expected from these assets. Without asset lives being correctly recorded, there is a risk that depreciation charges are under (or overstated). Following the identification of this matter management has undertake further work and identified an additional 918 assets with a net book value of £nil (gross book value £97.5m). We understand management will review these assets during 2024-25 and update the asset register accordingly.	**Recommendation** We recommend management formally review the asset register each year and revise asset lives where assets are likely to be used beyond their existing life (or reduced where assets are not expected to last as planned). **Management response** For vehicles, plant and equipment, the asset register uses an average expected life for the relevant assets. It is inevitable that for example some individual vehicles will be used for longer or shorter lives than the average. Given that any one individual vehicle or piece of equipment would not have a material impact, the council is satisfied that its average life approach is sufficient to ensure that depreciation is materially correct. The council agreed an approach to writing out nil value assets with Grant Thornton during the 2022/23 audit process. The large majority of these Vehicles, Plant and Equipment assets will have become fully depreciated in 2023/24 and so will be written out in 2024/25. These principles have been agreed with Grant Thornton.

B. Action Plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
Medium	**3. Land and buildings valuation** Our review of school valuations identified some significant changes in valuations compared to last year which informed part of our sample selection. Management in reviewing the samples selected noted that the KEL system used by the Council to record asset data had incorrectly extracted the reference code instead of the construction rate. We understand this is a software error and management are in liaison with the KEL system providers to correct. This error resulted in an understatement of £35.6m. Management has agreed to correct this error which is recorded at Appendix D. Without a formal review process being in place, there remains a risk that asset valuations may be calculated incorrectly.	**Recommendation** We recommend management review the source information used for valuations to ensure the data is accurate and complete and to avoid valuation errors. **Management response** The statutory timescales which the council was working to in producing its draft accounts for 2023/24 prevented a review of significant movements in asset values prior to the production of the draft accounts. Now that the statutory deadline for production of draft accounts has moved back to 30th June, the usual approach of reviewing asset valuations and requesting explanations for significant movements can be resumed.
Medium	**4. Land and buildings valuation** Our sample testing of 41 land and building valuations noted that floor plans showing the area of each asset were not available for 36 land and buildings reviewed. We understand from management that for school assets, the majority are cross referenced to either existing floor plans, are measured by the valuer (based on a rolling programme each year), or checked against the Concerto system within Children's and Families. For non school assets, the Council has relied on the KEL system which records the gross internal area of each building which we understand has been populated over time but there is no supporting floor plan data to evidence the gross internal floor area which is a key element in the valuation. Without formal floor plans there remains a risk the floor areas are not accurate and valuations could be incorrectly calculated. We understand from management that the Council's valuers who periodically undertake valuations of individual assets, consider the floor area of each building in undertaking their valuation, along with any additions and demolitions which are then updated to the KEL system. In this way, management consider gross internal floor areas are appropriately recorded.	**Recommendation** We recommend management should as part of the valuation process, obtain updated floor plan information from their valuers to formally evidence and support the data contained within the KEL system. **Management response** Floor plan information is available for many properties. Where floor plans are no longer readily available, these would have originally been held as archived hard copies. The finance team will discuss with the Asset Management service how best to work towards the requirement to obtain an updated floor plan when assets are revalued.

B. Action Plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
● Medium	**5. Council dwellings** The Council's housing stock is valued by the District Valuer Service (DVS) part of the Valuation Office Agency (VOA). Valuations are undertaken as at 1 January each year and then passed to the Council's in-house valuation team who then apply these valuations to the Council's housing stock by ward. The Council should consider the appropriateness of allowing the DVS to complete their work at 31 March and undertaking the complete valuation of the Council's housing stock by ward and freeing up capacity for the Council' inhouse valuation team. This approach would reduce the risk of council dwelling valuations being incorrectly valued in the Council's financial statements at the year end, 31 March.	**Recommendation** We recommend management consider the appropriateness of allowing the DVS to undertake the complete valuation of Council housing at 31 March each year. **Management response** The Council does not feel that this would be a cost-effective approach since the only element of the housing stock valuation the DVS doesn't provide is applying their weighted average % movement per ward to the housing stock valuation spreadsheet. This will save around 2 hours of work at best. It should also be noted that the DVS have previously stated that they would be unable to produce the current ward valuations data as at 31st March rather than 1st January in time for the draft accounts process. It is therefore not possible that they would be able to produce full valuations for a valuation date of 31st March in the required timescales.
● Medium	**6. IFRS 16** The Council has reported on International Financial Reporting Standard 16 (IFRS 16) in Note 26 - New accounting standards not yet implemented and states that the Council has chosen not to implement the changes until 2024-25. It also notes that the changes will apply prospectively from April 2024 onwards and the Council does not yet have sufficient information to quantify the likely impact on its balance sheet of the new assets and liabilities to be recognised. Management has however, in the most recent update to the draft accounts included the impact specifically of its PFI liabilities. A formal disclosure of the full impact of new accounting standards not yet implemented should be included in the financial statements the year before implementation to indicate the impact on the Council. The current disclosure is is not in compliance with Code 3.3.4.3 which states that an authority shall disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (ie on or before 1 January 2024 for 2023/24). Given we are now in February 2025, some one month to the year-end, we consider it important for the Council to fully understand the impact of IFRS 16. We have made a recommendation (Appendix B) that the Council should accelerate its work to fully quantify the impact of IFRS 16 on its financial statements as soon as possible.	**Recommendation** We recommend management should introduce arrangements to disclose the impact of new accounting standards not yet implemented in a timely manner. In addition, the Council should accelerate its work to fully quantify the impact of IFRS 16 on its financial statements as soon as possible. **Management response** The council has updated its final accounts to include an assessment of the impact of IFRS16 on its PFI schemes, and work on quantifying the impact on leases, which are less material, will be undertaken in time for inclusion in the 2024/25 accounts. The council's normal processes for assessing and implementing new accounting standards have had to be suspended due to the need to address the audit backlog. It should be possible to resume these normal processes for future years. It should be noted that the introduction of IFRS16 will have no impact on spendable reserves.

B. Action Plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
● Medium	**7. Bank Reconciliations** As part of our audit procedures, we requested the bank reconciliation relating to the Nat West General Account for April 2024. This request was made on 9 December 2024 and was not available at that time, some eight months after the period to which it relates. We understand this delay has been due to work pressures within the central finance team. Without the timely production of bank reconciliations, there remains a risk that the Council may be unable to effectively manage its cash position. There also remains a risk of fraud and irregularity. Management has informed us that the new ledger system (Microsoft Dynamics) includes an integrated bank reconciliation module which is automated and will improve the timely production of bank reconciliations from May 2025.	**Recommendation** We recommend management ensures the timely production of bank reconciliations which should be independently reviewed. **Management response** The council's new financial ledger system incorporates a bank reconciliation module, which will significantly change the bank reconciliation process and should make it more efficient. This should help to ensure that in the future the bank reconciliation process can be carried out in a timely way. In the meantime the council will work to bring its monthly summary reconciliations, which draw together the detailed reconciliations of individual day's bank statements, up to date.
● Medium	**8. Council Dwellings – beacon number** Our review of council dwellings noted that 334 properties did not have a beacon number allocated (based on similar council houses or comparable properties determined by the valuer). We understand management had not allocated a beacon to these properties as they are awaiting valuation. The Council should allocate beacon numbers once properties are built to ensure they are correctly categorised.	**Recommendation** We recommend management should allocate beacon numbers once properties are built to ensure they are correctly categorised. **Management response** The Council is not awaiting a valuation of any of these properties. New build properties are valued by the Council's internal team and buy backs are slotted in against a category of a similar, existing property. The utilisation of beacon numbers is not felt to be appropriate until 5 yearly full beacon valuation is undertaken.

B. Action Plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
Medium	**9. Business Rates – Retail Relief** Our sample testing of 25 items identified 5 instances of retail relief being granted without a formal review each year to confirm entitlement. Central government guidance on this relief was introduced during Covid-19 to ensure businesses were provided retail relief promptly without any formal application process. We understand this guidance has not been updated and the Council continues to automatically pay this relief. Given Covid-19 ended some time ago, the Council should introduce procedures to review relief granted periodically to confirm it remains valid.	**Recommendation** We recommend management should introduce procedures to review business rates retail relief granted periodically to confirm it remains valid. **Management response** It is important to stress that the audit did not identify any cases where the retail discount had been awarded incorrectly. In terms of a review of such cases there has been no change in the qualifying criteria for the discount since 2020. The risk is therefore that there has been a change in an individual business from wholly or mainly retail, hospitality or leisure to something else which they have not notified us of. There is no requirement in any of the guidance produced by the Government for Councils to undertake periodic reviews and to do so for the 3k businesses receiving this grant would be resource intensive. However, a review could be undertaken on a risk-based criteria targeting those businesses receiving the relief up to a cap of £11k and those occupying premises which are assessed by the valuation office agency as non-retail, hospitality or leisure premises such as a warehouse or workshop.

C . Follow up of prior year audit recommendations

We raised two recommendations in our 2022-23 audit of the Council's financial statements (and a further recommendation was outstanding from our 2021-22 audit). We have since followed up progress against these recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓ Implemented	**1. Payments – Cut off testing:** We identified one error in our cut off testing of £5,377k relating to under construction capital scheme valuations at 31 March 2023. An accrual should have been processed for this valuation but was omitted. A further review of all under construction capital valuations at 31 March 2023 noted two further errors totalling £624k. In total, accruals are understated by £6,001k. There is a risk that the value of accruals included in the financial statements for under construction capital schemes is understated. We recommended management should review all under construction capital valuations at the year end to ensure accruals are correctly recorded.	**Management response:** A review process is already in place at closedown to identify the accruals required for any capital invoices which have been processed into the new year, however this finding relates to a small number of instances where the invoices for the work done had not yet been received. Project managers will be reminded in future of the importance of ensuring that accruals are requested where they are aware of any significant work done for which invoices have not yet been received. **Audit Update – January 2025:** We have not identified any similar issues from our audit work in 2023-24.
X Not implemented	**2. Investment Properties:** Our audit work noted that of total investment properties of £79.8m, the Authority had revalued £71.7m in accordance with IAS 40 leaving £8.1m of properties not being revalued in year. Whilst investment properties not revalued in year is not considered material, there remains a risk that the value of investment properties may be incorrectly stated at the year end. We recommended management should ensure all investment properties are revalued each year in accordance with IAS 40 to ensure investment properties are correctly valued at the year end.	**Management response:** The requirement of IAS40 and the Code is that the fair value of investment properties should reflect market conditions at the balance sheet date; there is no specific requirement for formal annual revaluations to be carried out if they are not judged to be necessary to achieve this requirement. This finding relates to investment properties with an individual carrying value of less than £500k, of which there are 42 with an average carrying value of £117k. For its investment properties with a carrying value of <£500k, the Council carries out a high-level review annually to identify any changes in circumstances or other factors which could lead to a change in their fair value. Where any such indicators are present, a formal revaluation is carried out. This approach ensures that any cases where the fair value at the balance sheet date may potentially be materially different from the existing carrying value are identified and addressed. The Council is therefore satisfied that its existing arrangements are already consistent with the requirements of IAS40. **Audit Update – January 2025:** Our audit work for 2023-24 noted that of total investment properties of £64.3m, the Authority had revalued £59.7m in accordance with IAS 40 leaving £4.5m of properties not being revalued in year. Whilst investment properties not revalued in year is not considered material, there remains a risk that the value of investment properties may be incorrectly stated at the year end. International Accounting Standard 40 (IAS40) requires the Council to review its investment properties not revalued in year to be satisfied that there are no changes in circumstances or other factors which could lead to a change in their fair value. Where any such indicators are present, a formal revaluation should be undertaken. Whilst the Council has provided a list of investment properties not revalued in year, we have not received a formal evaluation by management to confirm there has not been any significant changes requiring a valuation.

C . Follow up of prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X Not implemented	3. 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 – January 2025: 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 2024-25 audit.

D. 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 2024 and the Council's useable reserves.

	Detail	Comprehensive Income and Expenditure Statement (£'000)	Statement of Financial Position (£'000)	Impact on useable reserves (£'000)
1.	**Note 7.5 – Subjective analysis of comprehensive income and expenditure**			
	Employee expenses	(5,315)	-	-
	Other service expenses	21,551	-	-
	Fees, charges and other service income	(16,236)	-	-
	Management identified an error in their workings for Employee expenses, Other service expenses and Fees, charges and other service income. Net nil impact on CIES.			
2.	**Note 16.2 - Asset held for sale**			
	Assets held for sale	-	(1,040)	-
	Gross Expenditure – Net Cost of Services	1,040	-	-
	Capital Adjustment Account	(1,040)	-	-
	The valuation of Redhall Services Complex was not updated for a trivial overstatement error identified in 2022-23. The error was due to the asset not being valued at the lower of its carrying value and fair value less costs to sell. This error has been corrected in 2023-24.			
3.	**Note 16.2 Asset held for sale**			
	Assets held for sale	-	9,988	-
	Gross Expenditure – Net Cost of Services	(9,988)	-	-
	Capital Adjustment Account	9,988	-	-
	A formula error resulted in some Council houses held for sale not being included in the total.			

D. Audit Adjustments

	Detail	Comprehensive Income and Expenditure Statement (£'000)	Statement of Financial Position (£'000)	Impact on useable reserves (£'000)
4.	Note 15.1 - Property plant and equipment			
	Other land & buildings	-	35,577	-
	Gross Expenditure – Net Cost of Services	(17,793)	-	-
	(Surplus)/deficit on revaluation of fixed assets	(17,784)	-	-
	Capital Adjustment Account/Revaluation Reserve	35,577	-	-
	A software error in the Kel system that is used by the council to calculate its DRC valuations resulted in understatement in the valuation of 34 primary schools.			
5.	Note 15.1 - Property plant and equipment			
	Other land & buildings	-	4,511	-
	Gross Expenditure – Net Cost of Services	(4,511)	-	-
	Capital Adjustment Account	4,511	-	-
	Relates to the Leeds City Museum valuation being revalued using a higher build cost to recognise its specialist characteristics by the Council's valuer.			
6.	Note 15.1 - Property plant and equipment			
	Other land & buildings	-	(2,420)	-
	Gross Expenditure – Net Cost of Services	1,787	-	-
	(Surplus)/deficit on revaluation of fixed assets	633	-	-
	Capital Adjustment Account/Revaluation Reserve	(2,420)	-	-
	The valuation for a primary school had omitted the obsolescence adjustment from the main building in the valuation. In addition, fees had not been applied to one of the blocks. This meant the asset value was overstated by £2,420k in the draft accounts.			

D. Audit Adjustments

	Detail	Comprehensive Income and Expenditure Statement (£'000)	Statement of Financial Position (£'000)	Impact on useable reserves (£'000)
7.	Note 7.5 – Subjective analysis of comprehensive income and expenditure and Note 17.1 Creditors			
	Net cost of services - income	788	-	788
	Creditors - receipts in advance	-	788	-
	Income from Section 38 developer contributions not released to the Comprehensive income and expenditure statement (CIES).			
8.	Note 3 – Pensions liabilities and Note 10 – Pensions			
	Net cost of services	6,735	-	-
	Net accrued interest – net pension liability	157	-	-
	Remeasurements of the net pension liability	(6,892)		
	Relating to the strain payment data provided by WYPF to AON being understated by £6.9m.			
9.	Note 8 – General Government Grants			
	Net cost of services income (grants)	29,963	-	-
	Non-ringfenced government grants	(29,963)	-	-
	Correction of classification error relating to the Adults and Health and Children's and Families element of the Social care grant.			
	Total	£788	£47,404	£788

D. Audit Adjustments

Impact of adjusted misstatements

The following adjustments arose as the Council had prepared its draft 2023-24 accounts before the 2022-23 audit had been completed. These adjustments relate to the opening balances shown in the 2023-24 accounts for the prior year (2022-23) and had been processed in the audited 2022-23 accounts and have no impact on the outturn for 2023-24.

	Detail	Comprehensive Income and Expenditure Statement (£'000)	Statement of Financial Position (£'000)	Impact on useable reserves (£'000)
1.	**Grant income**			
	Net Cost of Services Income (Grants)	8,663	-	-
	Non-ring fenced Government grants	(8,663)	-	-
	Correction of classification error relating to grant income.			
2.	**Accrual Grant Claims**			
	CIES – Communities, Housing, Environment - Income	(5,558)	-	-
	CIES - Communities, Housing, Environment - Expenditure	5,558	-	-
	Accrual of grant claims Migration Yorkshire			
3.	**Provisions**			
	CIES – Central accounts – Expenditure	2,750	-	-
	Provisions	-	(2,750)	-
	Recognition of provision.			
4.	**Capital expenditure accruals**			
	Creditors – Accruals	-	(6,196)	-
	Property, Plant and Equipment – Assets Under Construction	-	6,196	-
	Capital grants unapplied	-	6,196	-
	Capital Adjustment Account	-	(6,196)	-
	Cut off testing identified errors relating to under construction capital scheme valuations at 31 March 2023 which had not been accrued.			

D. 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.

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	The Cash Flow Statement does not fully comply with the disclosure requirements required by the CIPFA Code of Practice on Local Authority Accounting 2023-24. The Council uses the indirect method and the current presentation omits items a to c (Code para 3.4.2.75). The Cashflow Statement should be updated to start with net surplus or deficit on the provision of services. Management has agreed to update the Cash Flow Statement and provide appropriate disclosures to comply with the Code.	Cashflow Statement	✓
2.	Disclosure	Glossary - as in the previous year, there is no Glossary of Terms included to aid the reader of accounts which we recommend should be added.	-	X
3.	Disclosure	On the contents page, it states 'Consolidated balance sheet' but the council does not publish group accounts. We recommended 'consolidated' should be removed.	Contents Page	✓
4.	Disclosure	Narrative Report - our work identified a small number of changes to the Narrative Report, for example, on page 15, it refers to collection fund with negative reserves but the collection fund is an agent statement, there is no collection fund balance sheet and so this reference to negative reserves is misleading. Management has agreed to update.	Narrative Report	✓
5.	Disclosure	Movement in Reserves Statement (MiRS) - the opening and closing date on the MiRS have not been updated for 2023/24 in the draft accounts. Management has agreed to update.	Movement in Reserves Statement (MiRS)	✓
6.	Disclosure	Note 2 - Borrowing repayable on demand or within year (£234.9m) differs from the entry in the balance sheet of the same descriptor (£254.846m). This is because the figure in note 2 excludes accrued interest. Management has agreed to update the narrative to clarify this.	Note 2 - Borrowing and investments undertaken for capital and treasury management purposes	✓

D. Audit Adjustments

No.	Adjustment Type	Description and value	Account Balance	Updated in the revised accounts?
7.	Disclosure	Note 4.2 Contingent liabilities - the wording in note 4.2 paragraph b iv needs updating to reflect the changes in the 2023-24 accounts regarding equal pay claims. Management has agreed to update.	Note 4.2 Contingent liabilities	✓
8.	Disclosure	Notes 5 and 10 - Note 10.1b states that the council's net pension liability in relation to WYPF pensions has decreased by £114m. It should read the council's net pension assets in relation to WYPF pensions has increased by £114m. Note 5a also refers to increase in liabilities which needs updating. Management has agreed to update.	Note 5 Assumptions and major sources of estimation uncertainty and Note 10.1b Pensions	✓
9.	Disclosure	Note 5 - the disclosure in this note relating to property assets does not make it clear which non-current assets are included in the value of 5,258m, and hence which assets are affected by this uncertainty. Management has agreed to update the narrative to make it clearer including describing the assumptions that give rise to the uncertainty.	Note 5 Assumptions and major sources of estimation uncertainty	✓
10.	Disclosure	Note 6 Judgements made by management - on review it was noted that the disclosure in paragraph 6b and 6c would benefit from some quantification of the impact on the accounts regarding these assets. Management has agreed to update 6b relating to investment properties in the 2023-24 financial statements but will update 6c relating to school property assets next year (2024-25) given the time required to compile this information.	Note 6 Judgements made by management	✓
11.	Disclosure	Note 10.2 Teachers' Pensions - the narrative about the table in this note is not accurate as employers contributions are not part of the CIES and instead are brought in as part of the adjustments in the MiRS. The same issue also applies to the Teachers discretionary pensions. Management has agreed to update the narrative in the final version of the accounts.	Note 10.2 Teachers' Pensions	✓
12.	Disclosure	Note 12.2 Pooled budgets - Note refers to Leeds South & East CCG, Leeds West CCG and Leeds North CCG but these organisations have demised. Management has agreed to update the note.	Note 12.2 Pooled budgets	✓
13.	Disclosure	Note 12.3c Employee remuneration disclosure: - Banding in the exit package table excluded any packages between £20,000 and £100,000. Management has agreed to update the note.	Note 12.3c Employee remuneration	✓
14.	Disclosure	Note 12.4 Related parties - the Council had received updated information about senior officer declared interest expenditure after the publication of the draft accounts and provided a revised working paper to reflect this. The impact of the adjustment is £244k and requires the disclosure to be updated. Management has agreed to update the note.	Note 12.4 Related parties	✓

D. Audit Adjustments

No.	Adjustment Type	Description and value	Account Balance	Updated in the revised accounts?
15.	Disclosure	Note 12.5 Audit fees - Figure in the audit fees disclosure note does not agree to the audit plan. There was a difference of £15.5k. The final audit fees included in this Audit Findings Report total £578,681 and the disclosure should be updated to show £579k.	Note 12.5 Audit fees	✓
16.	Disclosure	Note 12.6 Operating leases in - it was noted that the figures for 'Other' and 'Merrion House' are not consistent in this note and the table needs to be corrected. Th disclosure states that in year rent paid from operating leases amounted to £286k and a further £2.243m amortised to revenue for Merrion House. In the following table the information is switched and £2.243m is reported as 'other' and £286k reported as Merrion House. Management has agreed to update the note.	Note 12.6 Operating leases in	✓
17.	Disclosure	Note 12.7 Finance leases in - there is a miscalculation of the present value of the minimum lease payments in note 12.7 of the draft accounts which needs correcting. Management has agreed to update the note.	Note 12.7 Finance leases in	✓
18.	Disclosure	Note 12.8 Finance leases out - two of the tables in this note are mistitled and need correcting. The note also needs correcting so that the present value of minimum lease payments figure is consistent.	Note 12.8 Finance leases out	✓
19.	Disclosure	Note 15.1 Property, plant and equipment and Note H5.1 Land and property assets (HRA) – incorrect figures appear to be disclosed for cost or valuation, accumulated depreciation and impairment which need correcting. This also affects note H5.1. We understand from management there was an error in the formula in the note for calculating the cost or valuation and accumulated depreciation and impairment figures noted. This is being corrected in the final accounts.	Note 15.1 Property, plant and equipment and Note H5.1 Land and property assets (HRA)	✓
20.	Disclosure	Note 15.2 Investment Property - the narrative in note 15.2 is not clear regarding investment properties. Management has agreed to update the note.	Note 15.2 Investment Property	✓
21.	Disclosure	Note 16.2 Assets held for sale – the note states the revaluation loss is charged to surplus/deficit on the provision of services but this is not clear in Note 13 Movements in Reserves. Management has confirmed that the note will be updated.	Note 16.2 Assets held for sale	✓
22.	Disclosure	Note 18.3 Fair value of items carried at amortised cost - The fair value figure for Long term borrowing has not been updated from the prior year. The figure should be £1,729,161k. Management has agreed to update the note.	Note 18.3 Fair value of items carried at amortised cost	✓

D. Audit Adjustments

No.	Adjustment Type	Description and value	Account Balance	Updated in the revised accounts?
23.	Disclosure	Note 21.1 Capital expenditure and funding - the narrative in this note refers to coronavirus. We recommend that this reference is removed if coronavirus is no longer having an impact in this area. Management has agreed to update the note.	Note 21.1 Capital expenditure and funding	✓
24.	Disclosure	Note 24 the Council's Group - at the time of the publication of the 2023-24 draft accounts, the Council had not received accounts/financial information for all associates, joint ventures and subsidiaries. This note will be updated in the final accounts for the latest available information.	Note 24 the Council's Group	✓
25.	Disclosure	HRA statement - Amendment of wording in statement from 'Depreciation and impairment of non current assets' to 'Depreciation, impairment and revaluation losses of non current assets'.	Housing Revenue Income and Expenditure Statement	✓
26.	Management adjustments	Management identified a small number of valuation adjustments to land and buildings which we have considered and which have been processed in the final version of the accounts. These amounted to £0.9m which decreased the Council’s assets with no impact on useable reserves.	Land and buildings	✓
27.	Management adjustments	Management has processed a small number of adjustments in the final version of the accounts which impact on the Comprehensive Income and Expenditure Statement (CIES) but have no impact on the outturn position for the year, including for example, the pupil premium grant.	CIES	✓

D. Audit Adjustments

Impact of unadjusted misstatements 2023-24

The table below provides detail of unadjusted misstatements identified during the 2023-24 audit which were not made to the final set of financial statements due to their immaterial nature.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £000	Impact on useable reserves £000	Reason for not adjusting in 2023-24
NONE		-	-	-

D. Audit Adjustments

Impact of unadjusted misstatements 2022-23

The table below provides detail of the adjustments identified during the 2022-23 audit which were not made to the final set of financial statements due to their immaterial nature.

	Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £000	Impact on useable reserves £000	Reason for not adjusting 2022-23
1	**Pension Fund valuation - Pooled Investment Vehicles**				
	Remeasurement of the net pension liability	4,962	-	-	Not considered material
	Pension Asset	-	4,962	-	
	The West Yorkshire pension fund auditor noted in their IAS19 report an adjusted error relating to Pooled Investment Vehicles (PIVs) of £20.3m relating to all admitted bodies. The Leeds City Council element of this error totals £5.0m (an increase to investment assets).				
2	**Fees and Charges income**				
	Net Cost of Services - Income	3,572	-	3,572	Not considered material
	Creditors – receipts in advance	-	3,572	-	
	Income from Section 38 agreements with a developers not released to the Comprehensive Income and Expenditure Statement (CIES) £3,572k .				
	Overall impact	8,534	8,534	3,572	Not considered material

E. Fees and non-audit services

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non-audit services.

Audit fees	Proposed fee	Final fee
Leeds City Council Audit (PSAA Scale fee)	£559,991	£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	**£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	£15,690
Total audit fees (excluding VAT)	**£575,491**	**£578,681**

* All variations to the scale fee will need to be approved by PSAA
** Fees relating to the auditor's valuation expert in respect of property TBC following additional inputs required relating to valuation queries.

The 2023-24 fees currently included in the draft financial statements in Note 12.5 Audit Fees reconcile to the total fees for 2023-24 of £578,681 as shown above.

PSAA will consider and assess any audit fees above the scale fee.

We confirm that no non-audit or audited related services have been undertaken for the Council or group.

F. Management Letter of Representation (draft)

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP
Whitehall Riverside
Leeds
LS1 4BN

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Grant Thornton UK LLP

Leeds City Council
Financial Statements for the year ended 31 March 2024

This representation letter is provided in connection with the audit of the financial statements of Leeds City Council for the year ended 31 March 2024 for the purpose of expressing an opinion as to whether the Council financial statements give a true and fair view in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 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 2023/24 ("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 financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

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

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

F. Management Letter of Representation (draft)

vii. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

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

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

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

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

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

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-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 considered whether the Council is required to reflect a liability in respect of equal pay claims within its financial statements. We confirm that we are satisfied that no additional liability needs to be recognised or disclosed on the grounds of detailed work undertaken by management of any potential liabilities.

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

xv. 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 its 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 entity 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

xvi. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence and confirm compliance.

xvii. The Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council's financial statements in the event of non-compliance.

F. Management Letter of Representation (draft)

Information Provided

xviii. 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 from whom you determined it necessary to obtain audit evidence.

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

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

xxi. 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.

xxii. 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.

xxiii. 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.

xxiv. 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.

xxv. 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.

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

Annual Governance Statement

xxvii. 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

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

F. Management Letter of Representation (draft)

Approval

The approval of this letter of representation was minuted by the Council's Corporate Governance and Audit Committee at its meeting on 24 February 2024.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Council

G. Audit opinion – Draft

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

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements of Leeds City Council (the 'Authority') for the year ended 31 March 2024 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Accounting Policies (including the Statement of accounting concepts and policies, Accounting standards issued but not yet adopted, Critical judgements in applying accounting policies, and Assumptions made about the future and other major sources of estimation uncertainty), the notes to the Core Financial Statements, the Notes to the Housing Revenue Account and the Notes to the Collection Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2024 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2024) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Interim Assistant Chief Executive – Finance, Traded and Resources and S151 Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

G. Audit opinion – Draft

In our evaluation of the Interim Assistant Chief Executive – Finance, Traded and Resources and S151 Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Interim Assistant Chief Executive – Finance, Traded and Resources and S151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Interim Assistant Chief Executive – Finance, Traded and Resources and S151 Officer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Annual Governance Statement, the Narrative Report and the Statement of Accounts, other than the financial statements, and our auditor's report thereon. The Interim Assistant Chief Executive – Finance, Traded and Resources and S151 Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in November 2024 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

G. Audit opinion – Draft

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority and the Interim Assistant Chief Executive – Finance, Traded and Resources and S151 Officer

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Interim Assistant Chief Executive – Finance, Traded and Resources and S151 Officer. The Interim Assistant Chief Executive – Finance, Traded and Resources and S151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, for being satisfied that they give a true and fair view, and for such internal control as the Interim Assistant Chief Executive – Finance, Traded and Resources and S151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Interim Assistant Chief Executive – Finance, Traded and Resources and S151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003, the Local Government Act 1972, the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012).

G. Audit opinion – Draft

We enquired of management and the Corporate Governance and Audit Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Corporate Governance and Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls through inappropriate journal entry and management bias or error in the valuation of land and buildings, council dwellings and the defined benefit pension net asset or liability.

Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on large and unusual items and journals falling within identified risk criteria including;
  - journals posted by senior management,
  - year-end and post year-end journals, and
  - material journals
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of land and buildings, council dwellings and valuation of the net pension asset or liability, and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including risks relating to management override of controls and bias or error in estimating the valuation of land and buildings, council dwellings and the defined benefit pension net asset or liability. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector
- understanding of the legal and regulatory requirements specific to the Authority including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

G. Audit opinion – Draft

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2024.

We have nothing to report in respect of the above matter except the following.

On 25 November 2024 we identified three significant weaknesses in the Authority's arrangements for improving economy, efficiency and effectiveness. These were in relation to:

- Financial Sustainability – We recommended that the Council should maintain its focus on the delivery of transformation and savings plans within the Children and Families Directorate including accelerating the pace and capacity to deliver savings and transformation plans in-year and by reviewing the level of service provision in Children and Families which could contribute to reducing service costs in a safe and sustainable way. The Council should develop options to make substantial additional savings in non-statutory spending across the whole organisation which may need to be implemented if continued overspending in Children's Services cannot be contained.
- Financial Sustainability – We recommended that the Council should assess the growing risk to its reserves policy of continued revenue budget overspending, including the impact on its strategy to re-build the General Reserve, its approach to managing the projected DSG deficit and the potential future removal of the DSG statutory override. Changes to the reserves policy should continue to be monitored and reported regularly at management and member levels, recognising its significance for the Council's overall financial sustainability.
- Governance – We recommended that the Council should strengthen its focus on budgetary control in relation to Children's Services by increasing the level of detail about performance in achieving savings and transformation plans in its public reporting at member level. Clear explanations of the reasons for delays or under-performance, revised timescales and nominated responsible officers would improve accountability. Mitigations and alternative plans should be specified with clear targets and timescales. Given the scale of savings and transformation plans in Children's Services, and their importance to the Council's overall financial sustainability, the associated risks should be identified and reflected in the Council's Strategic Risk Register, with an appropriate range of controls and mitigations identified and reported to Executive Board on a monthly basis.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

G. Audit opinion – Draft

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

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

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in November 2024. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Leeds City Council for the year ended 31 March 2024 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have:

- completed the work necessary in relation to consolidation returns, including Whole of Government Accounts (WGA), and the National Audit Office has concluded their work in respect WGA for the year ended 31 March 2024. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2024
- completed our consideration of two objections brought to our attention by local authority electors under section 27 of the Local Audit and Accountability Act 2014. We are satisfied that these matters do not have a material effect on the financial statements for the year ended 31 March 2024.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 85 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature

Sarah Ironmonger, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Leeds

xx February 2025

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