# The Annual Audit Letter for Leeds City Council

**Year ended 31 March 2019**

**23 August 2019**

# Contents


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# 1. Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Leeds City Council (the Council) for the year ended 31 March 2019.

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

We reported the detailed findings from our audit work to the Council's Corporate Governance and Audit Committee as those charged with governance in our Audit Findings Report on 26 July 2019.

## Respective responsibilities

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

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

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

## Our work

| | |
|---|---|
| **Materiality** | We determined materiality for the audit of the Council's financial statements to be £26,424,000, which is 1.3% of the Council's gross revenue expenditure. |
| **Financial Statements opinion** | We gave an unqualified opinion on the Council's financial statements on 31 July 2019. |
| **Whole of Government Accounts (WGA)** | We completed work on the Council's consolidation return following guidance issued by the NAO. |
| **Use of statutory powers** | We did not identify any matters which required us to exercise our additional statutory powers. |
| **Value for Money arrangements** | We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2019. |
| **Certificate** | We certified that we have completed the audit of the financial statements of Leeds City Council in accordance with the requirements of the Code of Audit Practice on 23 August 2019. |

# Executive Summary

### Working with the Council

In our first year of audit at Leeds City Council, we believe we have developed professional working relationships with you and your officers and have delivered a number of positive outcomes, including:

- regular liaison with senior finance managers and members of the Corporate Governance and Audit Committee to understand the issues facing the Council
- an efficient audit - we delivered an efficient audit with you in June and July meeting the local government target date of 31 July 2019
- understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also contributed to discussions and debates on a variety of topics on the Corporate Governance and Audit Committee agenda outside of external audit agenda items
- Providing training – we provided your teams with training on financial statements and annual reporting
- Supporting development – we provided a workshop for members of the Corporate Governance and Audit Committee on the roles and responsibilities of audit committees including governance issues, accounting developments and value for money arrangements. The day was an opportunity for members to network with other members across our Yorkshire local authority client base and discuss audit committee effectiveness.

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

**Grant Thornton UK LLP**
**August 2019**

# 2. Audit of the Financial Statements

## Our audit approach

### Materiality

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

We determined materiality for the audit of the financial statements to be £26,424,000, which is 1.3% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year. The level of materiality was revised to this amount following receipt of the Council's draft 2018/19 financial statements. We reported our updated materiality level in our Audit Findings Report (ISA260) to the Corporate Governance and Audit Committee on 26 July 2019.

We also set a lower level of specific materiality of £5,000 for senior officer remuneration.

We set a lower threshold of £793,000, above which we reported errors to the Corporate Governance and Audit Committee in our Audit Findings (ISA260) Report.

### The scope of our audit

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

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

We also read the remainder of the financial statements, the narrative report and the annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements on which we gave our opinion.

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

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

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

# Audit of the Financial Statements

## Significant Audit Risks

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

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|---|
| **Management over-ride of controls**<br>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.<br>We identified management over-ride of controls as a risk requiring special audit consideration. | As part of our audit work we:<br>• evaluated the design effectiveness of management controls over journals<br>• analysed the journals listing and determined the criteria for selecting high risk unusual journals<br>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration<br>• gained an understanding of accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence<br>• evaluated the rationale for any significant changes in accounting policies, estimates or significant unusual transactions. | Our audit work did not identify any issues in respect of management override of controls. |

# Audit of the Financial Statements

## Significant Audit Risks continued

| Risks identified in our Audit Plan | How we responded to the risk | Findings and conclusions |
|---|---|---|
| **Valuation of land and buildings (rolling revaluation) including the Council's 13 PFI schemes in the first year of audit**<br><br>The Council revalues 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 (over £5 billion) and the sensitivity of this estimate to changes in key assumptions.<br><br>Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.<br><br>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement. | As part of our audit work we:<br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work<br>• evaluated the competence, capabilities and objectivity of the valuation experts<br>• discussed with the valuers the basis on which the valuation was carried out<br>• challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding<br>• tested revaluations made during the year to see if they had been input correctly into the Council's asset register<br>• considered how management has confirmed assets valued at 30 September 2018 have not significantly changed in value by the year end, 31 March 2019<br>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end<br>• reviewed the Council's 13 PFI schemes to consider the appropriateness of the accounting entries. | Our audit work did not identify any issues except that the Council processed seven adjustments following receipt of additional valuation information to the carrying value of fixed assets in the draft financial statements.<br><br>These adjustments totalling £22.2m were to ensure the valuations were appropriate at the year end, and did not impact on the Council's level of useable reserves.<br><br>No other issues were identified from our work. |

# Audit of the Financial Statements

## Significant Audit Risks continued

| Risks identified in our Audit Plan | How we responded to the risk | Findings and conclusions |
|---|---|---|
| **Valuation of the pension fund net liability**<br><br>The pension fund net liability, as reflected in the Council's balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.<br><br>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. | As part of our audit work we:<br>• updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls<br>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work<br>• assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation<br>• assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability<br>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary<br>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing additional procedures including:<br>– review of the scope of the actuary's work<br>– review of the source data provided to the actuary to confirm its validity and completeness<br>– reviewed the duration of liabilities of the Council to ensure assumptions used are appropriate to the asset and liability profile of the authority<br>• obtained assurances from the auditor of the West Yorkshire Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and fund assets valuation in the pension fund financial statements. | Our audit work confirmed that the Council used the figures for its pension fund net liability issued by its actuary in April 2019. The figures provided by the actuary were based on asset valuations as at 31 March 2019.<br><br>The Council requested updated reports from its actuary to take into account the impact on the Council's pension numbers as a result of the McCloud judgement. The revised reports resulted in an increase in the Authority's pension fund liability of £47.4m, which was adjusted in the final accounts approved on 26 July 2019. This adjustment did not impact on the Council's level of useable reserves.<br><br>Our audit work did not identify any other issues. |

# Audit of the Financial Statements

### Audit opinion
We gave an unqualified opinion on the Council's financial statements on 31 July 2019.

### Preparation of the financial statements
The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

### Issues arising from the audit of the financial statements
We reported the key issues from our audit to the Corporate Governance and Audit Committee on 26 July 2019.

### Annual Governance Statement and Narrative Report
We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts in line with the national deadlines.

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

### Whole of Government Accounts (WGA)
We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which did not identify any issues for the group auditor to consider.

### Certificate of closure of the audit
We certified that we have completed the audit of the financial statements of Leeds City Council in accordance with the requirements of the Code of Audit Practice on 23 August 2019.

# 3. Value for Money conclusion

### Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

### Key findings

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

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

As part of our Audit Findings (ISA260) report agreed with the Council in July 2019, we agreed one recommendation to address our findings.

### Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

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# Value for Money conclusion

<table>
<tr><th>Risks identified in our Audit Plan</th><th>How we responded to the risk</th><th>Findings and conclusions</th></tr>
<tr><td>Financial standing<br>• Leeds City Council as other authorities, continues to operate under significant financial pressures. For 2018-19, the Council planned to deliver a balanced outturn position but to achieve this, needed to deliver savings of some £34m whilst managing cost pressures within Children’s Services and Adult Social Care at a time of reduced funding<br>• For 2019-20, the initial budget proposals presented to Executive Board (December 2018) indicated a Council Tax increase of 2.99% and a further 1.0% for Adult Social Care, with in year savings required of some £24.4m.</td><td>As part of our work we:<br>• reviewed key financial and operational documents<br>• discussed key relevant matters with senior management.</td><td>• The Council delivered an outturn underspend in 2018-19 of £3.0m (General Fund) compared to a budgeted balanced position for the year<br>• Actual savings delivered by directorates totalled some £28.8m compared to a savings target of £34m for 2018-19 (an achievement rate of 85%). After the creation of a number of new reserves valued at £3.1m, the Council contributed £2.3m to the General Fund Reserve at the year end increasing the General Fund Reserve from £25.7m at 1 April 2018 to £28m at 31 March 2019. This increase supports the Council's strategy to increase its reserves to strengthen its financial resilience<br>• The Housing Revenue Account also delivered an outturn underspend of £1.1m for 2018-19 mainly due to savings on employee costs of £2.1m which were offset by overspends on repairs and maintenance of some £1.0m<br>• Capital spend during the year totalled £271m (General Fund) compared to a budget of £263m. The main increase related to the acquisition of the Swinegate Multi Storey Car Park which was added after the original capital programme was set<br>• The Council approved the 2019-20 budget in February 2019, Council Tax was increased by 2.99% plus an additional 1% for the Adult Social Care precept, a total increase of 3.99% on net revenue expenditure of £516.7m. To deliver the budget in 2019-20, the Council needs to deliver £22.6m of savings by March 2020.<br>Conclusion<br>The Council continues to operate under significant financial pressures, however, it has effective arrangements in place to routinely monitor its budget and take appropriate action to mitigate against any significant variances or additional calls on resources.<br>Whilst the Council has a challenging savings target for 2019-20 of £22.6m, it has a record of delivering the overall budget and considers the savings achievable. The Council has continued to maintain reserves at around 5% of net revenue expenditure. However, looking ahead to future projections based on current spending patterns and expected income, the level of reserves may reduce. We recommended there is a need for the Council to consider the adequacy of its reserves going forward.<br>Overall, we concluded that the Council has proper arrangements in place to ensure sustainable resource deployment.</td></tr>
</table>

# Value for Money conclusion

| Risks identified in our Audit Plan | How we responded to the risk | Findings and conclusions |
|---|---|---|
| **Brexit**<br><br>The UK was due to leave the European Union on 29 March 2019 (now 31 October 2019). There will be national and local implications resulting from Brexit that will impact on the Council, which the Council will need to plan for.<br><br>We considered the Council's arrangements and plans to mitigate any risks on Brexit. We also considered areas such as workforce planning, supply chain analysis, regulatory risk and the impact on finances including investment and borrowing as well as any potential impact on the valuation of the Council's assets. | As part of our work we:<br>• reviewed key financial and operational documents<br>• discussed key relevant matters with senior management. | • The UK was initially expected to leave the European Union on 29 March 2019, this was then extended to 12 April 2019, after which EU leaders agreed a further extension to 31 October 2019. The Council's Chief Executive is the regional lead for Brexit preparations in Yorkshire and Humberside<br>• Following the result of the June 2016 referendum, the Council's Executive Board considered a report in July 2016 and approved five areas that the Council and its partners would focus on in the run-up to Brexit including supporting business and key institutions and maintaining momentum on major development schemes<br>• The majority of the Council's work to prepare for Brexit has been undertaken as part of normal business arrangements at the Council. However, co-ordination of activity has been undertaken by a team based within the Chief Executive's Office and through the Brexit Officer Working Group. Regular reports have also been presented to the Executive Board. There is also recognition that should an emergency situation arise, Council officers may need to be temporarily redeployed as part of response and recovery arrangements<br>• The Council has developed a strategic response plan to provide a framework to deal with the uncertainty in the build up to and the response phase after the UK's exit. The plan is structured around five key themes: 1. Infrastructure and supplies; 2. Business and economic impact; 3. Community; 4. Media and communications and; 5. Organisational impact. The response plan is able to be scaled up or down depending on the nature of the UK's final exit from the EU.<br><br>**Conclusion**<br><br>The Council has continued to monitor Brexit developments following the referendum in June 2016 and has continued to liaise with other neighbouring authorities and national and local agencies to ensure a co-ordinated approach to the EU exit process.<br><br>Given the date of Brexit has now been extended to 31 October 2019, the Council continues to monitor developments and liaise with its partners to ensure it remains prepared for Brexit. The Council has in place a response plan and recognises Brexit may impact on local businesses. It also remains prepared to implement the plan when required and will redeploy staff if required in the short term.<br><br>Overall, we concluded the Council has proper arrangements in place to plan for Brexit and can demonstrate appropriate working with partners. |

# Appendix A: Reports issued and fees

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

### Reports issued

| Report | Date issued |
|---|---|
| Audit Plan | January 2019 |
| Audit Findings (ISA260) Report | July 2019 |
| Annual Audit Letter | August 2019 |

### Fees

| | Planned £ | Actual fees £ | 2017-18 fees £ |
|---|---|---|---|
| Statutory audit | 178,604 | TBC – see table on right | 231,953 |
| **Total fees** | **178,604** | **TBC** | **231,953** |

### Fees for non-audit services

| Service | Fees £ |
|---|---|
| CFO Insights | £17,500 |

### Non- audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.

We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place. The above non-audit service is consistent with the Council's policy on the allotment of non-audit work to your auditor.

### Audit fee variation

As outlined in our Audit Plan, the 2018-19 scale fee published by PSAA of £178,604 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. We noted this expectation in our ISA260 Report in July. The areas of additional work and resulting fee implications are set out in the following table.

| Area | Reason | Fee proposed £ |
|---|---|---|
| **McCloud:**<br>**Assessing the impact of the McCloud ruling** | The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements. | 3,000 |
| **Pensions:**<br>**IAS 19 audit work** | The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this. | 3,000 |
| **PPE Valuation:**<br>**work of experts** | As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this. | 3,000 |
| **Total** | | **9,000** |

**The proposed fee variations are subject to PSAA approval.**

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