Leicester City Council audit plan

Year ending 31 March 2024

16 July 2024

Contents

Your key Grant Thornton team members are:

Avtar Sohal
Key Audit Partner
T 0121 232 5420
E Avtar.S.Sohal@uk.gt.com

William Howard
Manager
T 0121 232 5263
E William.J.Howard@uk.gt.com

Lisa Morrey
Manager
T 0121 232 5302
E Lisa.Morrey@uk.gt.com

Section	Page
Key matters	3
Introduction and headlines	5
Significant risks identified	7
Other risks identified	11
Other matters	13
Progress against prior year recommendations	14
Our approach to materiality	18
IT Audit Strategy	21
Value for Money Arrangements	23
Risks of significant VFM weaknesses	24
Audit logistics and team	26
Audit fees and updated auditing standards	27
IFRS 16 'Leases' and related disclosures	29
Independence and non-audit services	30
Communication of audit matters with those charged with governance	33
Escalation policy	35
Addressing the audit backlog	36

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.

Key matters

National context

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

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time. We note from the Council's General Fund Budget Report, considered by Full Council in February 2024, that the budget for both 2023/24 and 2024/25 has an excess of expenditure over income, the gap for which will be met through the use of reseves. There is an underlined message that notes "we do not have enough money – we estimate reserves will run out part way through 2024/25."

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

Audit Reporting Delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our repot About time? In March 2023 which explored the reasons for delayed publication of audited local authority accounts.

In our view, to enable a timely sign off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers.

Cyber security breach

The Council was subject to a cyberattack on 7 March 2024. We will be undertaking detailed work alongside our IT colleagues to understand the impact (if any) of the cyberattack on the audit of the Council's 2023/24 financial statements. The Council had asked for us to delay this work in order to allow their IT staff to focus on investigating and rectify any issues caused by the cyberattack. We will also consider the cause and impact as part of our Value for Money procedures.

Key matters - continued

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan has been agreed with the Director of Finance.
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work on site with you and your officers. Please confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. This is also in compliance with our delivery commitments in our contract with PSAA.
- We offer a private meeting with the Chief Operating Officer twice a year, and with the Director of Finance Quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness. As well as to follow up on recommendations from previous years.
- We will continue to provide you and your Governance and Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Governance and Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- With the ongoing financial pressures being faced by local authorities; in planning this audit we have considered the financial viability of the Council. We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Council.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.
- There is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue– refer to page 7.

Introduction and headlines

Purpose

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

Respective responsibilities

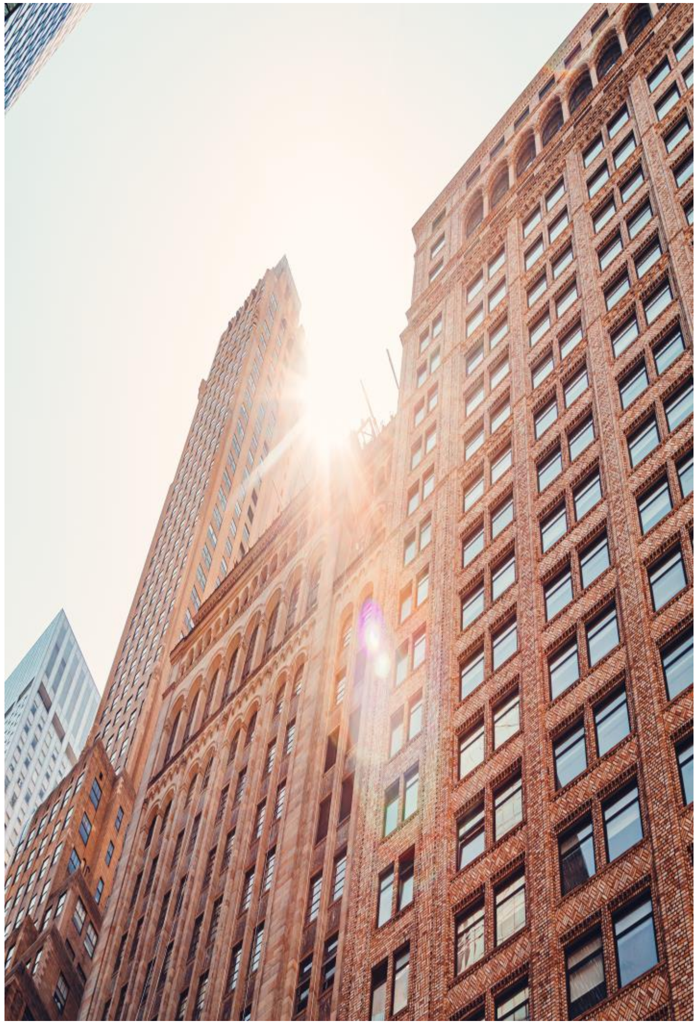
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. The NAO is in the process of updating the Code. Our respective responsibilities are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

Scope of our audit

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

The audit of the financial statements does not relieve management or the Governance and Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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



Introduction and headlines

Significant risks

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

- Management override of control
- Valuation of the net pension liability
- Valuation of Other land and buildings, and Surplus assets.

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

Materiality

We have determined planning materiality to be £16.4m (PY £16.4m) for the Council, which equates to 1.4% of your prior year gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.8m (PY £0.8m).

Value for Money arrangements

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

- Financial sustainability

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

Audit logistics

Our planning visit will take place in February, our interim visit will take place in March and our final visit will take place July-October. Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our preference is for all our work to take place on site alongside your officers.

Our proposed fee for the audit will be £403,977 (PY estimate at this stage: £189,947) for the Council, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Presumed risk of fraud in revenue recognition ISA (UK) 240	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 ISA 240, and the nature of the revenue streams of Leicester City Council, (fees, charges and other service income, interest and investment income, income from council tax, income from non-domestic rates, housing rents and government grants and contributions), we have determined that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because: • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited; and • The culture and ethical frameworks of public sector bodies, including Leicester City Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for the Council.	We will still undertake work on the Council's revenue streams, as they are material. We will also design tests to address the risk that income has been understated, by not being recognised in the current financial year.
Risk of fraud related to expenditure recognition PAF Practice Note 10	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition. Having considered the nature of the expenditure streams of Leicester City Council, and on the same basis as that set out above for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition due to fraud.	We will still undertake work on the Council's expenditure streams, as they are material. We will also design tests to address the risk that expenditure has been overstated, by not being recognised in the current financial year. Further detail in this respect is set out on page 12.

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

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	We will: • evaluate the design and implementation of management controls over journals • analyse the journals listing and determined the criteria for selecting high risk unusual journals • identify and test unusual journals made during the year and the accounts production stage for appropriateness • gain an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness • review and test items identified as part of transactional testing to ensure they have been appropriately charged to either the General Fund or the Housing Revenue Account (HRA) as appropriate We noted as part of our 2023/24 planning work that there continues to be a lack of an established approval process for journals which places heavy reliance on the expectation for the Council's day-to-day activities to identify and correct any improper postings. The Council is aware of this and officers perform retrospective review of a sample of journals posted. Nevertheless, this represents a control deficiency which we will take consideration of in our approach. Furthermore in the 2022/23 audit, evidence in support of one of the journals tested, demonstrated that a senior officer (which we defined as being Chief Accountant and above) had posted to the ledger by proxy (ie by asking another officer to post something on their behalf, something that they themselves had prepared). We would usually not expect senior officers to be posting to this ledger and therefore considered this to be an override of control. We extended our inquiries and identified a further 7 officers who confirmed they had posted on behalf of someone else. Given that the Council has no automated authorisation process, this raises particular concerns, as it means that officers are posting journals prepared for them by more senior officers, who may then be responsible for the retrospective review of said journal. This has the potential to render the retrospective review ineffective, if the reviewer is reviewing their own work. We will take consideration of this of in our approach to the risk of management override of control.

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings, and surplus assets	The Council is required to revalue 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 and the sensitivity of this estimate to changes in key assumptions. Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date. Within the valuation of the Council's Other Land and Buildings, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build cost of relevant assets carried at depreciated historic cost and any judgements that have impacted this assessment and the condition of the current assets. For assets valued at existing use value and fair value, the key inputs into the valuation are the yields used in the valuation, including estimated future income from the asset. We therefore have identified that the accuracy of the key inputs and assumptions driving the valuation of land and buildings, and surplus assets, as a significant risk.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenge the information and assumptions used by the valuer to assess the completeness and consistency with our understanding • engage our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations • test revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end.

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net asset / liability	The Council's pension fund net liability/surplus, as reflected in its balance sheet represents a significant estimate in the financial statements. 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). In the previous audit, for the first time since IFRS have been adopted the council had to consider the potential impact of IFRIC 14. Because of this we have assessed the recognition and valuation of the pension asset/liability as a significant risk, due to the sensitivity of the estimate to changes in key assumptions. 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 easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. With regard to these assumptions, we have therefore identified valuation of the Council's pension fund net liability as a significant risk.	We will: • update our understanding of the processes and controls put in place by management to ensure that the pension fund balance is not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management experts (the actuary) for this estimate, and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation • assess the accuracy and completeness of the information provided by the group to the actuary to estimate the liabilities • test the consistency of the pension fund balance and disclosures in the notes to the core financial statements with the actuarial reports from the actuary • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. • consider how the Council has applied the requirements of IFRIC14 in its accounting treatment of the net pension asset, if applicable • obtain assurances from the auditor of the Leicestershire County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund's financial statements.

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

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

Other risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Council Dwellings	The Council contracts an expert to provide annual valuations of council dwellings based on guidance issued by the Ministry of Housing, Communicates and Local Government (now Department for Levelling Up, Housing and Communities). They are valued using a beacon approach, based on existing use value discounted by the relevant social housing factor for Leicester. Dwellings are divided into asset groups (a collection of property with common characteristics) and further divided into archetype groups based on uniting characterises material to their valuation, such as numbers of bedrooms. A sample property, the "beacon" is selected which is considered to be representative of the archetype group and a detailed inspection carried out. The valuation of this asset is then applied to all assets within its archetype. The key inputs into the valuation are the social housing factor, consideration of market movements and the determination of the beacons. We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings as a as a risk requiring special audit consideration.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenge the information and assumptions used by the valuer to assess the completeness and consistency with our understanding • engage our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations • test revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end.

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

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Operating expenditure and creditors	Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. During the course of the four previous audits, there have been instances of expenditure not being accrued for which has led to further testing being conducted to ensure that no material misstatement existed. We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention.	We will • evaluate the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness • gain an understanding of the Council's processes for accounting for non-pay expenditure • test a sample of balances included within trade and other payables • test a sample of payments immediately after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period. • test a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period.
Completeness, existence and accuracy of cash and cash equivalents	The receipt and payment of cash represents a significant class of transactions occurring throughout the year, culminating in the year-end balance for cash and cash equivalents reported on the statement of financial position. Due to the significance of cash transactions to the Council, we identified the completeness, existence and accuracy of cash and cash equivalents as a risk requiring special audit consideration.	We will • agree all period end bank balances to the general ledger and cash book; • agree cash and cash equivalents to the the bank reconciliation; • agree all material reconciling items and a sample of other items to sufficient and appropriate corroborative audit evidence; • obtain the bank reconciliation for the following month end and review the reconciling items against those included on the period end bank reconciliation; • write to the bank and obtain a bank balance confirmation; • agree the aggregate cash balance to the relevant financial statement disclosures.

Other matters

Other work

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

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

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Progress against prior year audit recommendations

Assessment
✓ Action completed
X Not yet addressed

We identified the following issues in our 2022/23 audit of the Council's financial statements, which resulted in 10 recommendations being reported in our 2022/23 Audit Findings Report. We will follow up on the implementation of all recommendations and provide further updates in our Audit Findings Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Segregation of duty conflicts within Unit 4** Administrative access to Unit 4 (via 'AG-SYSTEM' role) has been granted to users who have the ability to enter financial transactions. The combination of this and the ability to administer end-user security is considered a segregation of duties conflict. We recommended that: • Management should consider reviewing access rights assigned to all system users to identify and remove conflicting access rights. • Management should adopt a risk-based approach to create and reassess the segregation of duty matrices on a periodic basis. This should consider whether the matrices continue to be appropriate or required updating to reflect changes within the business. • If incompatible business functions are granted to users due to organisational size constraints, management should ensure that there are review procedures in place to monitor activities [e.g. reviewing system reports of detailed transactions; selecting transactions for review of supporting documents; etc. This is a recommendation rolled forward from 2021/22.	This finding will not be remediated by the Council on the grounds that management believe the user configuration is appropriate to ensure the smooth and effective running of the Council's processes and procedures.
TBC	**Valuation process of other land and buildings** We recommended in previous years that officers and the valuer ensure that the information used in the valuation process is the most up to date and in line with relevant guidance. We also recommended that the valuer documents robustly and in detail, the rationale behind assumptions applied as the valuations are produced, to ensure that an audit trail is readily available. This is a recommendation rolled forward from 2020/21.	Our audit work in this area is a work in progress as at the time of writing. We will report on this matter further in our Audit Findings report.

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	**Valuation process of Council dwellings** We are aware of the timings needed in order to produce valuations and the valuer has historically used the most up to date information to estimate house price indices when preparing the financial statements. However, we have identified differences between the index values at the time of preparing the accounts and the audit, when more accurate information is available. We recommended that valuations determined using estimates are revisited when actuals are known, to provide additional assurance that there is no material misstatement. This is a recommendation rolled forward from 2021/22.	Our audit work in this area is a work in progress as at the time of writing. We will report on this matter further in our Audit Findings report.
TBC	**Terms of Engagement with valuers responsible for valuing Council Dwellings** We commissioned an auditor's expert to review the work done by the external valuer. They commented that there continues to be no reference to the valuation methodology to be used or the actual nature of the assets to be valued. They noted that the valuer set out the assumptions noting the accuracy of the beacon valuation is a major factor governing the quality o the housing stock valuation, but noted that the valuer did not confirm whether any properties were treated differently, ie whether special assumptions were applied. We recommended that these missing aspects are included in the Terms of Engagement in the future. This is a recommendation rolled forward from 2021/22.	Our audit work in this area is a work in progress as at the time of writing. We will report on this matter further in our Audit Findings report.

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	**De minimis policy** We identified that management have a de minimis policy of not accruing for any transactions below £1k. We gained assurance that the invoices raised, and invoices received under £1k received in March to April 2023 would not pose a risk of material misstatement if they were all not accrued for, due to the size of the populations in question. However, the last time management formally undertook such an assessment was in 2016/17. We recommended that this assessment is done on an annual basis to ensure that the conclusion that the accounts would not be materially misstated as a result of this policy, remains the case.	Our audit work in this area is a work in progress as at the time of writing. We will report on this matter further in our Audit Findings report.
TBC	**Grants income** In gathering evidence in support of sample testing of schools' grants income, management advised that a double counting error had been identified relating to two of our sample items. This was also a reported error in our 2018/19 Audit Findings Report. Albeit several years apart, this was a very specific error to have recurred, and we therefore recommended that the Council revisits its processes in relation to the processing of schools' grants income to ensure that such double counting does not take place in future.	Our audit work in this area is a work in progress as at the time of writing. We will report on this matter further in our Audit Findings report.
TBC	**Expenditure and Income Analysed by Nature** We identified in our testing this year (and in the prior year) that errors have arisen because of hard coding in this workpaper. This indicates that errors of this nature will continue to recur unless the workings are automated and hard coding removed. We recommended that this workpaper is fully automated, or subject to more robust quality assurance checks as part of the closedown process, so that such errors are avoided.	Our audit work in this area is a work in progress as at the time of writing. We will report on this matter further in our Audit Findings report.

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	**Journals process** It is not best practice for senior officers to be posting journals as it has the potential to remove a layer of review, authorisation and approval. We noted from the journals data that senior officers have not posted journals, but we identified evidence indicating that they have been posting to the ledger by proxy (ie by asking another officer to post something on their behalf, something that they themselves had prepared). Given that the Council has no automated authorisation process, this raises particular concerns, as it means that officers are posting journals prepared for them by more senior officers, who may then be responsible for the retrospective review of said journal. This has the potential to render the retrospective review ineffective and raises a segregation of duty concern, if the reviewer is reviewing their own work. We recommended that the Council revisit its journals process in respect of this practice and ensure that where officers are posting on behalf of someone else, that those journals are subject to separate review.	Our audit work in this area is a work in progress as at the time of writing. We will report on this matter further in our Audit Findings report.
✓X	**Schools cash balances** For timing convenience, the Council use balances from February for schools as an estimate for the end of March position in the financial statements. We compared this to the bank confirmation letter at year end and quantified a misstatement £3.24m. We recommended that the Council revisit its closedown processes to ensure that the schools' cash balances as at the balance sheet date are appropriately reflected in the financial statements.	This finding has been partially remediated. Due to the timescales involved in meeting SoA publication dates, management have elected to continue using an estimated figure for school cash balances. Management will review their processes to provide further assurance that the difference between estimated and actual balances are not material.
✓	**Capital Additions - Goods Received Not Invoiced** We identified instances in our additions testing of capital accruals being overstated as the goods/services had not been received before 31 March. We recommended management ensure that capital accruals are reviewed to ensure that they are being based on actual goods/services received.	Additional training and guidance has been provided for capital project managements, as part of the preparation for 2023/24 closedown. Accruals will also be reviewed by finance staff before posting.

Our approach to materiality

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

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £16.4m, which equates to 1.4% of your gross expenditure in the prior period.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; – assist in establishing the scope of our audit engagement and audit tests; – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements.
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £25,737.

Our approach to materiality

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

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Governance and Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £820k (PY £820k). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance and Audit Committee to assist it in fulfilling its governance responsibilities.

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.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	16,400,000	We determined materiality for the audit of the Council's financial statements as a whole to be £16.4m, which is approximately 1.4% of the Council's gross operating expenses in the prior period. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.
Materiality for specific transactions, balances or disclosures: senior office remuneration	25,737	We will apply headline materiality of 1.4% to the total senior officer remuneration. We will apply this materiality on an individual officer level. Total remuneration per the accounts is: £1,838,337, and lower materiality (1.4%) for senior officers' note is therefore £25,737.

IT audit strategy

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

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Prior year spend / (income) £000	Planned level IT audit assessment
Unit 4 Business World	Financial reporting	£1,166m / £(1,067m)	We will test the design and implementation of IT general controls, plus privileged access testing for application and database to address recommendations made in the prior year.
iTrent	Payroll	£458m	We will test the design and implementation of IT general controls.
Civica	Council Tax, Business Rates	£(232m)	Gain an understanding of the relevant IT and technical infrastructure, and the processes that operate within the system.
	Welfare Benefits	£73m	
Liquid Logic/Controcc	Social care expenditure	£218m	Gain an understanding of the relevant IT and technical infrastructure, and the processes that operate within the system.

IT audit strategy

In addition, due to the cyber security breach in the reporting period, additional audit procedures will be completed to address any additional risks of material misstatement identified.

As outlined on page 3, the Council had asked for us to delay this work to allow their IT staff to focus on investigating and rectify any issues caused by the cyberattack. Therefore the additional audit procedures are not known at this stage.

We will provide an update in due course, though we recognise that any confidential/sensitive information will not be reported publicly.

IT system	Event	Relevant risks	Planned IT audit procedures
TBC	Cyber attack	TBC	TBC

Value for Money arrangements

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

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

Improving economy, efficiency and effectiveness

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

Financial sustainability

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

Governance

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

Risks of significant VFM weaknesses

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

Risks of significant VFM weaknesses – continued

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

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

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

G	No significant weaknesses in arrangements identified or improvement recommendation made.
A	No significant weaknesses in arrangements identified, but improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendations made.

Criteria	2022/23 Auditor judgement on arrangements informing our initial risk assessment		Additional risk-based procedures planned
Financial sustainability	Red	Significant weakness identified and one key recommendation raised.	We will follow up progress against the key recommendations made and ensure that our work assesses the current arrangements in place.
Governance	Amber	No significant weaknesses in arrangements identified but three improvement recommendations raised.	We will follow up progress against the improvement recommendations made and ensure that our work assesses the current arrangements in place.
Improving economy, efficiency and effectiveness	Amber	No significant weaknesses in arrangements identified but one improvement recommendation raised.	We will follow up progress against the improvement recommendation made and ensure that our work assesses the current arrangements in place.

Our planning work for 2023/24 is not yet complete, and we will update you separately once this has concluded.

Audit logistics and team

Planning and risk assessment

Interim audit

Audit committee July 2024

Audit Plan

Year end audit July-October 2024

Audit committee November 2024

Audit Findings Report/Draft Auditor's Annual Report

Audit opinion

Audit committee November 2024

Auditor's Annual Report

Lisa Morrey, Audit Incharge

Key audit contact responsible for the day to day management and delivery of the audit work.

William Howard, Audit Manager

Provides oversight of the delivery of the audit including regular engagement with Governance Committees and senior officers

Avtar Sohal, Key Audit Partner

Provides oversight of the delivery of the audit including regular engagement with Governance Committees and senior officers.

Audited Entity responsibilities

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

Our requirements

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

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are cleansed, are made available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit (as per our responses to key matters set out on slide 4.
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2017, PSAA awarded a contract of audit for Leicester City Council to begin with effect from 2018/19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023/24 audit is £391,427.

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

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

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

Assumptions

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

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

Updated Auditing Standards

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

Audit fees

	Proposed fee 2023/24
Leicester City Council Audit	£391,427
ISA 315	£12,550
Impact of cyber security breach*	TBC
Total audit fees (excluding VAT)	£403,977 (+TBC)

Previous year

In 2022/23 the scale fee set by PSAA was £128,947. The actual fee charged for the audit is not finalised at this stage, we estimate that it will be £189,947.

Relevant professional standards

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

*We anticipate that there may be additional audit procedures required, to address any additional risks identified a result of the cyber security breach.

IFRS 16 'Leases' and related disclosures

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

Introduction

IFRS 16 updates the definition of a lease to:

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

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

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

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

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

Council's systems and processes

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

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

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link.

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

Independence and non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefits	62,000*	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £62,000 in comparison to the total fee for the audit of £403,977 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Capital receipts grant	10,000*	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £403,977 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers Pension Return	12,500*	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £403,977 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

* Note that these fees are those anticipated to be charged in respect of 2023-24.

Independence and non-audit services

CFO Insights

CFO Insights is an online software service offering from Grant Thornton UK LLP that enables users to rapidly analyse, segment and visualise all the key data relating to the financial performance of a local authority. The financial data, revenue outturn and budget data for the current year and the previous year (and in time up to 10 years), is provided by CIPFA and the socio-economic data is drawn from Place Analytics. The data is contextualised using a range of socio-economic indicators enabling a local authority to understand its relative performance.

It is reported to you here, as the Council has taken out a subscription to this service for three years at £12,500 annually.

We have set out our consideration of the threats to our independence as auditors, in providing this non-audit service, and the safeguards that have been applied to mitigate these threats.

Non-audit related service	Fees £	Threats	Safeguards
CFO insights	12,500 (per annum for 3 years)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £403,977 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•

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

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

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

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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.

Escalation policy

The Department for Levelling Up, Housing and Communities are proposing to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future.

As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the Authority's responsibility to produce true and fair accounts in accordance with the CIPFA Code by the 31 May 2024 and respond to audit information requests and queries in a timely manner.

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

Step 1 - Initial Communication with Finance Director (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)

We will have a conversation with the Finance Director(s) to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

Step 2 - Further Reminder (within two weeks of deadline)

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

Step 3 - Escalation to Chief Operating Officer (within one month of deadline)

If the delay persists, we will escalate the issue to the Chief Operating Officer, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding..

Step 4 - Escalation to the Governance and Audit Committee (at next available Governance and Audit Committee meeting or in writing to Governance and Audit Committee Chair within 6 weeks of deadline)

If senior management is unable to resolve the delay, we will escalate the issue to the Governance and Audit Committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

Step 5 – Consider use of wider powers (within two months of deadline)

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.

Addressing the local audit backlog - consultation

Consultation

The Department for Levelling Up, Housing and Communities (DLUHC), working with the FRC, as incoming shadow system leader, and other system partners, has put forward proposals to address the delay in local audit. The proposals consist of three phases:

Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.

Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.

Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

The consultation ran until 7 March 2024. Full details of the consultation can be seen on the following pages:

- FRC landing page - Consultations on measures to address local audit delays (frc.org.uk)
- DLUHC landing page - Addressing the local audit backlog in England: Consultation - GOV.UK (www.gov.uk)
- NAO landing page - Code of Audit Practice Consultation - National Audit Office (NAO)

Our response to the consultation

Grant Thornton responded to the consultation on 5 March 2024. In summary, we recognise the need for change, and support the proposals for the introduction of a backstop date of 30 September 2024. The proposals are necessarily complex and involved. We believe that all stakeholders would benefit from guidance from system leaders in respect of:

- the appropriate form of reporting for a backstopped opinion
- the level of audit work required to support a disclaimer of opinion
- how to rebuild assurance in terms of opening balances when previous years have been disclaimed.

We believe that both auditor and local authority efforts will be best served by focusing on rebuilding assurance from 2023/24 onwards. This means looking forwards as far as possible, and not spending 2023/24 undertaking audit work which was not carried out in previous years. We look for guidance from systems leaders to this effect.

Grant Thornton

grantthornton.co.uk