

Leicester City Council audit plan

Year ending 31 March 2023

27 September 2023



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Key matters



National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost-of-living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a 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 2023, 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 reserves. There is a stark message, which notes "we do not have enough money – we estimate reserves will run out part way through 2024/25. Thus, the achievement of significant savings is essential to live within our means."

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

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In March 2023, we issued [About time?](#), which explored the reasons for delayed publication of audited local authority accounts. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

Key matters



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 further in our Audit Plan, has been agreed with the Director of Finance.
- 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 interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in respect of management override of control – refer to page 7.

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 pension liability
- valuation of Council Dwellings
- valuation of other land and buildings

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 £15m) for the Council, which equates to approximately 1.4% of your unaudited 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.

As part of our risk assessment, we have considered the impact of unadjusted prior period errors and on that basis have reduced the performance materiality from a possible 75% (standard threshold) to 65%. This is consistent with the prior year.

Clearly trivial has been set at £820k (PY £750k).

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.

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.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our planning visit took place earlier in the year with a follow up visit in June. To that end, indicative audit risks were presented to the Governance and Audit Committee in July pending the completion of our planning work and the finalisation of this plan. Our final visit is taking place at the time of writing.

Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £176,947 (PY: £173,447) 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. The significant risks set out below are consistent with those proposed in our indicative audit risks document seen by the Governance and Audit Committee in July 2023.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Presumed risk of fraud in revenue recognition ISA (UK) 240	<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> • 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. <p>Therefore, we do not consider this to be a significant risk for the Council.</p>	<p>Notwithstanding that we have rebutted this risk, we will still undertake a significant level of work on the Council's revenue streams, as they are material. We will:</p> <p><u>Accounting policies and systems</u></p> <ul style="list-style-type: none"> • evaluate the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code • update our understanding of the Council's business processes associated with accounting for income <p><u>Fees, charges and other service income</u></p> <ul style="list-style-type: none"> • agree, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. <p><u>Taxation and non-specific grant income</u></p> <ul style="list-style-type: none"> • income for national non-domestic rates and council tax is predictable and therefore we will conduct substantive analytical procedures • for other grants we will sample test items back to supporting information and subsequent receipt, considering accounting treatment where appropriate. <p>We will also design tests to address the risk that income has been understated, by not being recognised in the current financial year.</p>

'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
<p>Risk of fraud related to expenditure recognition</p> <p>Public Audit Forum (PAF) Practice Note 10</p>	<p>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.</p> <p>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.</p>	<p>Notwithstanding that we have rebutted this risk, we will still undertake a significant level of work on the Council's expenditure streams, as they are material. We will:</p> <p><u>Expenditure</u></p> <ul style="list-style-type: none"> • update our understanding of the Council's business processes associated with accounting for expenditure • agree, on a sample basis, expenditure and year end creditors to invoices and cash payment or other supporting evidence <p>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.</p>
<p>Management override of controls</p>	<p>Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.</p> <p>The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgement applied and made by management and consider their reasonableness with regard to both corroborative and any contradictory evidence that may exist • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>We noted as part of our planning work that there continues to be a lack of an established approval process for journals which places heavy reliance on 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 and are willing to tolerate any residual risk having considered the balance of effective and efficient working against risk of error or loss. Nevertheless, this represents a control deficiency which we will take consideration of in our approach.</p> <p>Additionally, we note on page 13 that administrative access has been granted to users who have the ability to enter financial transactions. We have identified the users this relates to, and have designed tests accordingly in our approach to journals testing.</p>

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	<p>The pension fund net asset/liability, as reflected in the balance sheet as the net defined benefit asset/liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net asset/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.</p> <p>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.</p> <p>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.</p> <p>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.</p> <p>We therefore identified valuation of the pension fund net asset/liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the pension fund net liability 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 asset and liability 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/liability • 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 management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

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

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	<p>The Council revalues its land and buildings on a rolling, five-yearly basis.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • 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.

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

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

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Council Dwellings	<p>The Council contracts an expert to provide annual valuations of council dwellings based on guidance issued by the Ministry of Housing, Communities 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 characteristics material to their valuation, such as numbers of bedrooms.</p> <p>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.</p> <p>The key inputs into the valuation are the social housing factor, consideration of market movements and the determination of the beacons.</p> <p>We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • 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.

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

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

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
Operating expenditure	<p>Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses.</p> <p>We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention.</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness • gain an understanding of the Council's system for accounting for non-pay expenditure • test a sample of balances included within trade and other payables • test a sample of payments immediately prior to and 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	<p>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.</p> <p>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.</p>	<p>We will</p> <ul style="list-style-type: none"> • 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.

'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 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 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 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements. We have received one objection in relation to the 2022/23 financial statements in respect of Selective Licensing, which we are in the process of undertaking work on ;
 - 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

We identified the following issues in our 2021/22 audit of the Council's financial statements, which resulted in 5 recommendations being reported in our 2021/22 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



Segregation of duty conflicts within i-Trent and Unit 4

Administrative access to i-Trent (via 'LCITC SYSTEM ADMIN') and 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 noted that the following individuals had such elevated permissions:

i-Trent

- 1 user as 'Corporate Payments Manager' from the 'Payroll' department.
- 3 users as 'Operational Pensions and Payment Officer' from the 'Payroll' department
- 1 user as System support and development officer from the 'Payroll' department.

Unit 4

- 'Finance Systems Technician' from the Finance department.
- 'Accountant' from the Finance Team.

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 finding has been partially remediated.

i-Trent

We acknowledge that admin access to iTrent via 'LCITC SYSTEM ADMIN' has been remediated with addition of new security profile and logging of activities of the same. The system administrator can access to these logs and are monitored on monthly basis. We also inspected there were no unjustifiable actions has been taken by Payroll team.

Unit 4

We have noted the exception remains same for this year and have designed tests accordingly in our approach to journals testing.

Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	<p>Valuation process of other land and buildings</p> <p>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 was a recommendation rolled forward from 2020/21 and raised again in 2021/22.</p>	<p>Our work in this area is a work in progress as at the time of writing, but we note that our review of initial evidence provided, has indicated that the audit trail is not readily available.</p> <p>We will report on this matter further in our Audit Findings Report.</p>
TBC	<p>Valuation process of Council dwellings</p> <p>The Council used the housing price index to uplift house prices using indices at February 2022 with an estimate for March 2022.</p> <p>We were satisfied from our analysis that using February indices instead of March does not materially impact the valuation and we are satisfied that the estimate is reasonable. We are aware of the timings needed in order to produce valuations and the valuer at the time did use the most up to date information with an estimate of movement made for March 2022 which wasn't available at that time. We recommended that valuations determined using estimates are revisited when actuals are known, to provide additional assurance that there is no material misstatement.</p>	<p>Our work in this area is a work in progress as at the time of writing.</p> <p>We will report on this matter further in our Audit Findings Report.</p>
TBC	<p>Annual Governance Statement</p> <p>We considered the Council's Annual Governance Statement to be 'light' in comparison to other examples we see in the sector. While we have concluded it meets requirements the Council should consider enhancing its narrative for future years to more fully explain its governance arrangements, especially in light of governance failures elsewhere in the public sector.</p>	<p>The Council shared with us its draft Annual Governance Statement prior to publication and we were satisfied that additional information had been included to address the recommendation made in prior year.</p> <p>We will keep this recommendation open pending formal sign off of the Annual Governance Statement, as it will need to be updated for any relevant issues arising between the balance sheet and the date that the accounts are signed.</p>
TBC	<p>Terms of Engagement with valuers responsible for valuing Council Dwellings</p> <p>We noted that, overall, the terms of engagement outlining the scope of works of the portfolio of properties by the Council's valuer is deemed satisfactory as at the valuation date of 31st March 2022 but could be improved in two aspects:</p> <ul style="list-style-type: none"> the information to be relied upon by the Valuer is not set out in any detail; and it is unclear whether any special assumptions will be included. <p>We recommended that these missing aspects are included in the Terms of Engagement in the future.</p>	<p>Our work in this area is a work in progress as at the time of writing.</p> <p>We will report on this matter further in our Audit Findings Report.</p>

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	<p>Determination</p> <p>We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality is £16.4m, which equates to 1.4% of your draft gross expenditure for the period.</p>	<p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> – 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	<p>Other factors</p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p>	<p>An item may be considered to be material by nature where it may affect instances when greater precision is required.</p> <ul style="list-style-type: none"> – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures.
3	<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<p>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.</p>
4	<p>Other communications relating to materiality we will report to the Governance and Audit Committee</p>	<p>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 £750k). 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.</p>

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	<p>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.</p> <p>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.</p>
Materiality for specific transactions, balances or disclosures: senior office remuneration	Various – see commentary	<p>We will apply headline materiality of 1.4% to the total senior officer remuneration.</p> <p>We will apply this materiality on an individual officer level.</p> <p>Total remuneration per the accounts is: £1,838,337, and lower materiality (1.4%) for senior officers' note is therefore £25,737.</p>



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. We say more about ISA 315 Revised on slide 21.

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	Planned level IT audit assessment
Business World/Unit 4	Financial reporting	Documentation of IT general controls (comprising security management, technology acquisition, development and maintenance and technology infrastructure) plus follow up on progress in implementing the recommendations raised in our 2021/22 Audit Findings Report. We recommended that:
iTrent	Payroll	<ol style="list-style-type: none"> 1. Management should consider reviewing access rights assigned to all system users to identify and remove conflicting access rights. 2. 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. 3. 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].
Civica	Council Tax, Business Rates, Benefits	<ul style="list-style-type: none"> • Documentation of IT general controls plus a roll forward of privileged access testing for application and database
Active Directory		<ul style="list-style-type: none"> • Documentation of IT general controls plus a roll forward of privileged access testing for application and database

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

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.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.



Financial sustainability

We note from the Council's [General Fund Budget Report](#), considered by Full Council in February 2023, 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 reserves. There is a stark message, which notes "we do not have enough money – we estimate reserves will run out part way through 2024/25. Thus, the achievement of significant savings is essential to live within our means."

The Council has adequate reserves for the short term but managing the risk of increasing demand in the face of funding pressures is a key area for the Council.

We will review the Council's Medium Term Financial Statement and financial monitoring reports and assess the assumptions being used and savings being achieved, as well as follow up on all improvement recommendations made in our 2021/22 Annual Auditor's Report.

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

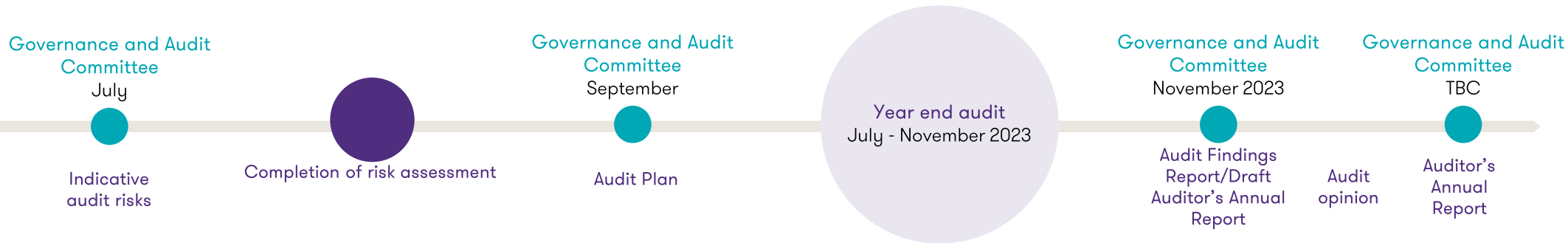
The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



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.

Audit logistics and team



Grant Patterson, Engagement Lead



Grant will be the main point of contact for officers and committee members. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice, ensuring that our audit is tailored specifically to the Council. Grant is responsible for the overall quality of our audit work, and will sign your audit opinion.

Nic Coombe, Director



Nic will work with senior members of the finance team, ensuring that any issues that arise are addressed on a timely basis. He will attend Audit and Risk Committee and liaison meetings with Jon, undertake reviews of the team's work and ensure that our reports are clear, concise and understandable.

Will Howard, Manager



Will will work directly with the finance team and manage the day-to-day work of the more junior members of our audit team. He will complete work on the more complex areas of the audit, and will provide support to Nic as necessary.

Audited body 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 audits. Where the elapsed time to complete an audit exceeds that agreed due to a client 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 a client 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 agreed timetable you have agreed with us, including all notes, the Narrative 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 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 items for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017 PSAA awarded a contract of audit for Leicester City Council to begin with effect from 2018/19. The fee agreed in the contract was £112,884. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £5,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf and has been agreed with the Director of Finance.

Audit fees

	Actual Fee 2020/21	Actual Fee 2021/22	Proposed fee 2022/23
Leicester City Council Audit	£173,734	£173,447	£176,947
Total audit fees (excluding VAT)	£173,734	£173,447	£176,947

Assumptions

In setting the above 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.

Relevant professional standards

In preparing our fee estimate, 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.

Objections and questions

As noted within our Audit Plan we have received an Objection to the Council's 2022/23 financial statements. Any costs related to our work on determining the objection are not included in the fee estimates above. Potential fee variations will be discussed with the Director of Finance on conclusion of our work.

Audit fees – detailed analysis

Scale fee published by PSAA for 2022/23	128,947
(This includes ‘baked-in’ increases from previous years which continue to apply for future years in relation to:	
• £4,375 pension valuations	
• £5,438 for PPE valuations	
• £6,250 for additional FRC challenge	
Continued impact in relation to decreased materiality	£3,750
Impact of ISA540	£6,000
Enhancements to journals testing	£3,000
Increased audit requirements for ongoing raising of quality standards - FRC	£1,500
Infrastructure	£2,500
Appointment of auditor’s expert in respect of PP&E valuations	£5,000
Enhanced audit procedures for Payroll – Change of circumstances	£500
Enhanced audit procedures for Collection Fund - reliefs testing	£750
Increased audit requirements of revised ISAs 315	£5,000
Additional work on Value for Money (VfM) under new NAO Code	£20,000
Total proposed audit fees 2022/23 (excluding VAT)	£176,947

All variations to the scale fee will need to be approved by PSAA

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 (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. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

Other services

The following other service provided by Grant Thornton was identified, as detailed in the table.

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			
Fees in the table below related to 2021/22 which were paid in 2022/23, which is why they are disclosed here. Actual fees in relation to 2022/23 are listed in the footnote below.			
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 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	7,500	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 in comparison to the total fee for the audit 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	6,000	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 in comparison to the total fee for the audit 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.
Non-audit related			
None	N/A	N/A	N/A

2022/23 agreed fees for these audit-related services are:

- Housing Benefit: £32,400 for the core fee (covering re-performance on discovery testing, Modules 1, 2 and 5, with a variable day rate of £1,500 applied to CAKE and 40+ reperformances.
- Teachers Pension Return: £10,000
- Housing Capital Receipts: to be confirmed.

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.

Audit-related service	Fees £	Threats identified	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 anticipated to be £12,500 in comparison to the total fee for the audit 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.
		Self-review (because GT provides audit services)	To mitigate against the self review threat , the work is undertaken by a team independent of the audit team. The audit will consider the accounting treatment of the payments made and this is not part of CFOi service. There is not considered to be a significant self-review threat.

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	•		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.
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	•	•	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.
Significant matters in relation to going concern	•	•	
Significant findings from the audit		•	We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.
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		•	Respective responsibilities
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)		•	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.
Non-compliance with laws and regulations		•	
Unadjusted misstatements and material disclosure omissions		•	
Expected modifications to the auditor's report, or emphasis of matter		•	The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.



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