

# The Audit Findings for Leicester City Council

---

Year ended 31 March 2019

24 July 2019



# Contents



## Your key Grant Thornton team members are:

Grant Patterson  
Engagement Lead

T: 0121 232 5296

E: grant.b.patterson@uk.gt.com

Nicola Coombe  
Senior Manager

T: 0121 232 5206

E: nicola.coombe@uk.gt.com

Janette Scotchbrook  
In-Charge Auditor

T: 0121 232 5409

E: janette.k.Scotchbrook@uk.gt.com

## Section

1. Headlines
2. Financial statements
3. Value for money
4. Independence and ethics

## Page

- 3
- 4
- 20
- 25

## Appendices

- A. Audit adjustments
- B. Fees
- C. Audit Opinion
- D. Management Letter of Representation

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

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Leicester City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li><li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July. Our findings are summarised on pages 3 to 19. We have identified four adjustments to the financial statements, none of which have resulted in an impact on the Council's net reported surplus for the year. Audit adjustments are detailed in Appendix C.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (see Appendix C) or material changes to the financial statements, subject to the satisfactory resolution of the outstanding matters listed on page 5.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Leicester City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C. Our findings are summarised on pages 22 to 24.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"><li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li><li>• To certify the closure of the audit.</li></ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the but are unable to issue our completion certificate until we complete our work on the Whole of Government Accounts assurance statement, the submission deadline for which is 13 September.</p>

## Acknowledgements

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

# Summary

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance (in the case of the Council this is the Audit & Risk Committee) to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 6 March 2019.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Leicester City Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	17,200,000	We determined materiality for the audit of the Council's financial statements as a whole to be £17,200,000, which is approximately 1.5% of the Council's gross operating expenses. 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.
Performance materiality	11,200,000	We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 65% of financial statement materiality for the audit of the financial statements. Our consideration of performance materiality is based upon a number of factors: <ul style="list-style-type: none"> <li>• From our review of the previous auditor's work we have not been made aware of significant historical control deficiencies</li> <li>• Senior management and key reporting personnel in the finance function has remained stable from the prior year audit</li> <li>• However, given that this is the first year of audit of the Council we have applied a lower threshold than would usually be the case of 65%.</li> </ul>
Trivial matters	£860,000	We determined the threshold at which we will communicate misstatements to the Audit and Risk Committee to be £860,000, which is 5% of materiality.
Materiality for specific transactions, balances or disclosures	£25,000	In accordance with ISA320 we have considered the need to set lower levels of materiality for sensitive balances, transactions or disclosures in the accounts. We consider the disclosures of senior manager's remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts.

# Summary

**Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.**



- Completion of or work on the Council's prior period adjustments
- Completion of our journals testing
- Receipt of and completion of our sample testing in the areas of other expenditure, fees and charges, grant income and welfare benefits expenditure
- Review of the Council's PFI schemes in accordance with IFRIC12 for Building Schools for the Future and Integrated Waste Service
- Completion of our work considering the appropriateness and adequacy of information provided to the valuer in their valuation of Council House Dwellings, and sample testing of application of Beacons
- We are in the process of evaluating the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
- Completion of our work considering the appropriateness and adequacy of information provided to the valuer in their valuation of other council land and buildings, and sample testing thereon.



- Receipt of final Annual Report and financial statements
- Receipt of management representation letter; and
- Updating our post balance sheet events review, to the date of our Auditor's Report

#### Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

## Audit opinion

Subject to satisfactory conclusion of the outstanding matters listed above our anticipated audit report opinion will be unmodified (Appendix C).

Members of the Audit & Risk Committee will wish to note that the Council repaid debt listed on the London Stock Exchange in January 2019. As a result the Council is no longer classified as a "Public Interest Entity" and an Extended Auditor's Report, as provided by the predecessor auditor, is no longer required.

# Significant findings – audit risks

## Risks identified in our Audit Plan

### 1 The revenue cycle includes fraudulent transactions (rebutted)

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined as part of our planning procedures that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including 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 Leicester City Council.

### 2 Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. .

The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as one of the most significant assessed risks of material misstatement for the Council.

## Commentary

### Auditor commentary

We have not altered our assessment as reported in the audit plan and therefore have no issues to report in this regard.

Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect.

### Auditor commentary

We have:

- gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness
- obtained a full listing of journal entries, identify and tested unusual journal entries for appropriateness
- evaluated the rationale for any changes in accounting policies or significant unusual transactions.

Our audit work at the Council has not identified any issues in respect of management override of controls, though we note that as at the time of writing we are still completing our work on journals testing.

For an in depth consideration of the Council's estimates please see pages 10 to 12.

# Significant findings – audit risks

## Risks identified in our Audit Plan

3

### Valuation of land and buildings

The Authority's accounting policy is to revalue all assets on a rolling basis in order to ensure that all assets are revalued at least every five years, thereby meeting the Code requirements.

In previous years valuations have been as at 1 April. To ensure that the carrying value is not materially different from the current value at the financial statements date the Authority has therefore had to demonstrate that:

- for the year revalued there were no material movements between the 1 April and 31 March; and,
- for the four years not subject to revaluation demonstrate that the carrying value of those assets is not materially different from their current value.

For 2018-19 management have engaged the services of a valuer to estimate the current value as at 31 March 2019. This is therefore a change in practice for the Council for the 2018-19 financial statements as valuations previously were done as at 1 April, i.e, the start of the financial year. We have discussed this with the finance team. This is considered a change in estimation technique to improve accuracy and not a change in accounting policy. We are not minded to challenge this approach subject to the Council, along with its valuers, being able to demonstrate that the total carrying value as at the balance sheet date of its land and buildings is not materially different from the current value..

These valuations 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.

We therefore identified the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Commentary

### Auditor commentary

We have:

- documented and evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer, with follow up discussions as necessary, to confirm the basis on which the valuations were carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested, on a sample basis, revaluations made during the year to ensure they are consistent with the valuer's report and have been input correctly into the Authority's asset register

### Findings

We identified from our review of the Council's draft financial statements that £13.2m of surplus assets were valued at historic cost, when the Code requires them to be valued at fair value, ie the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. All except £275k of this value relates to land at Waterside. The fair value for this land has subsequently been determined to be £11.1m. The Council are amending for this adjustment by decreasing the value of the asset by £1.9m, with an equal and opposite amount to the revaluation reserve.

### Conclusions

We cannot conclude upon this area as at the time of writing as:

- We are awaiting a response from one valuer in relation to our queries on the valuation of Council Dwellings
- We are in the process of evaluating the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.
- As at the time of writing we have not seen the draft financial statements to confirm that the proposed amendment has been made.

# Significant findings – audit risks

4	Risks identified in our Audit Plan	Commentary
	<p><b>Valuation of the pension fund net liability</b></p> <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£634.0 million as at 31 March 2018) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p><b>Auditor commentary</b></p> <p>We have:</p> <ul style="list-style-type: none"> <li>documented our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and,</li> <li>undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.</li> </ul> <p><b>Findings</b></p> <p>We have nothing to report in respect of the planned work above. However, during the course of the audit, the Council has sought a revised report from the actuary in order to account for the impact of the recent "McCloud" judgement. In January 2017, the Employment Tribunal ruled that transitional provisions in the New Judicial Pension Scheme (NJPS) were unlawfully age discriminatory because they were not objectively justified. The Tribunal found that a group of claimant judges had been subject to age discrimination when they were transferred to the NJPS established in April 2015 while under transitional provisions older colleagues were able to remain in the existing Judicial Pension Scheme (JPS). The JPS is a final salary scheme whereas the NJPS is a career average revalued earnings scheme.</p> <p>Firefighters (the Sargeant case) had brought a similar age discrimination case and the Employment Tribunal ruled that similar transitional provisions were a proportionate means of achieving a legitimate aim and so did not give rise to unlawful age discrimination. Firefighters appealed the ruling and in December 2018 the Court of Appeal looked at both the judges and firefighters' cases and ruled that transfers to the new schemes established in 2015 were discriminatory on the basis of age. This case is referred to as McCloud versus Sergeant.</p> <p>Where the transitional provisions are unlawful then those members who are found to have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members. The Government applied to the Supreme Court for permission to appeal and on 27 June 2019 it was announced this was denied.</p> <p>This has led the Council to conclude that it is now probable that members of the LGPS (for whom an underpin was introduced when the scheme changed on 1 April 2014) would also be impacted by the judgment and it therefore requested an updated report from its actuary to take into account the above decision. This was provided in July and the accounts updated accordingly. It has led to an increase in the defined gross pension liability from £2,142,765k to £2,160,400, an increase of £17,635k. The fair value of plan assets has also been updated to reflect the actual rather than estimated position at 31 March, a decrease of £28,113k from £1,376,887k to £1,348,774. The net pension liability on the balance sheet has therefore moved from £766m to £811m. We are satisfied that these adjustments have been reflected in the revised financial statements.</p> <p><b>Conclusion</b></p> <p>We have requested but not yet obtained assurances from the auditor of 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 financial statements. Subject to satisfactory receipt of this we are not anticipating an impact upon our audit opinion but are unable to conclude on this risk as at the time of writing.</p>





# Significant findings - other issues





This section provides commentary on other issues and risks.

Issue	Commentary	Auditor view
<p><b>1 Opening Balances</b></p> <p>ISA 510 (UK) requires that in conducting an initial audit engagement we should obtain sufficient appropriate audit evidence about whether:</p> <p>a) Opening balances contain misstatements that materially affect the current period's financial statements; and</p> <p>b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements</p> <p>We have reviewed the work of the predecessor auditor and concluded that we can place reliance upon it except for the following areas where we will need to undertake additional audit procedures:</p> <ul style="list-style-type: none"> <li>• Confirm opening balances of long-term market loans, Leicester Fire Service borrowing, the bond issue and transferred debt liability to council records.</li> <li>• When we review the Council's PFI models we will agree opening balances as well as closing balances and confirm the rationale for the accounting treatment.</li> <li>• Undertake substantive testing on the opening debtors and creditors balances.</li> </ul>	<ul style="list-style-type: none"> <li>• We have confirmed the opening balances of long-term market loans and borrowing and have conducted substantive testing on the opening debtors, with no issues arising.</li> <li>• Our work on the Council's PFI models is ongoing as at the time of writing but we have nothing to bring to your attention from the work completed to date.</li> <li>• In supplying evidence for the sample testing of the creditors opening balances, the corporate finance team identified that grants had been treated incorrectly in the prior year financial statements. They had been held on the balance sheet as creditors/receipts in advance, which for these particular grants was incorrect, as they must be recognised immediately as income, unless any conditions have not been met.</li> <li>• The impact of the prior period adjustment affects more than one prior period. The value of the restatement as at 31 March 2018 was £23.5m with a restatement as at 31 March 2017 of £19.7m. The Council has therefore prepared a third balance sheet accordingly. There is no impact on the Council's reported surplus/deficit for either of these years.</li> </ul>	<ul style="list-style-type: none"> <li>• We are completing our documentation of the adjustment made as at the time of writing but agree with the Council that a prior period adjustment is the appropriate course of action and that the values of the adjustments are correct.</li> </ul>
<p><b>2 Schools' treatment of grant income</b></p> <p>In supplying evidence for the sample testing of the grants, the corporate finance team identified that there was £15m of schools grants income that had been erroneously double counted; once by the Council, and again by the school.</p>	<ul style="list-style-type: none"> <li>• The Council is preparing working paper supporting the proposed adjustment which we will review upon receipt.</li> </ul>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>• We are completing our documentation of the adjustment made as at the time of writing but agree with the Council that a prior period adjustment is the appropriate course of action.</li> </ul>



# Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Provisions for NNDR appeals - £4m</b>	The Council are responsible for repaying a proportion of successful rateable value appeals. Management calculate the level of provision required based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	<p>We have:</p> <ul style="list-style-type: none"> <li>Reviewed the appropriateness of the underlying information used to determine the estimate</li> <li>Considered the reasonableness of increase/decrease in estimate</li> <li>Confirmed the adequacy of disclosure of estimate in the financial statements</li> </ul>	 <b>Green</b>
<b>Land and Buildings – Council Housing - £950m</b>	The Council owns 20,759 dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Jones Lang LaSalle Ltd to complete the valuation of these properties. The year end valuation of Council Housing was £950m, a net increase of £40m from 2017/18 (£910m).	<p>We have:</p> <ul style="list-style-type: none"> <li>Assessed the objectiveness and competency of management's expert</li> <li>Determined the accuracy of the underlying information used to determine the estimate</li> <li>Compared the consistency of estimate against a report from Gerald Eve setting out indices movements in the year</li> <li>Tested the value of the properties by comparing a sample to publicly available market information to enable us to assess the reasonableness of the increase in the estimate</li> <li>Reviewed the adequacy of disclosure of estimate in the financial statements</li> </ul> <p>While some of this work is ongoing, as at the time of writing we have identified nothing to date to bring to your attention.</p>	<b>TBC</b>
<b>Heritage assets - £92m</b>	The Council holds a number of Heritage Assets, defined as assets having historical, artistic, scientific, technological, geophysical or environmental qualities, and that are held and maintained principally for their contribution to knowledge and culture. As there is no open market for these items, the Council values them using an insurer's valuation.	The value of heritage assets has decreased from £111m to £92m in year, largely as a result of a change in methodology applied in the insurance valuation. We are satisfied that this is change in accounting estimation and not a change in accounting policy and therefore the change is being applied prospectively.	 <b>Green</b>





## Assessment

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


# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<b>Land and Buildings – Other - £1,199m</b>	<p>Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council has engaged its own internal valuer to complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis. 72% of total assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net increase/decrease of £159m.</p> <p>We are still in the process of discussing with management its assessment of assets not revalued during the year to ensure that the value as at 31 March 2019 is not misstated.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Assessed the objectiveness and competency of management's expert</li> <li>Determined the accuracy of the underlying information used to determine the estimate</li> <li>Compared the consistency of estimate against a report from Gerald Eve setting out indices movements in the year</li> <li>Tested the value of the properties by comparing a sample to enable us to assess the reasonableness of the increase in the estimate</li> <li>Reviewed the adequacy of disclosure of estimate in the financial statements</li> </ul> <p>While some of this work is ongoing as at the time of writing we have identified nothing to date to bring to your attention.</p>	 <b>Green</b>
<b>Level 2/3 investments</b>	<p>The Council have financial assets of long-term loans to companies, and finance leases. These investments are not traded on an open exchange/market and the valuation of the investment is subjective as it is not based on observable data. They have therefore been assigned as level 3 in the fair value hierarchy.</p> <p>Management have determined that the fair value amount is the same as the carrying amount due to the nature of the investments held. This is considered reasonable and the value of the investment at £4.2m is not considered material.</p> <p>For its level 2 investments and borrowings, management has commissioned Treasury advisors, Arlingclose, to assist in preparing the financial instruments disclosures..</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Performed an assessment of management's expert</li> <li>Considered the reasonableness of increase/decrease in estimate</li> <li>Reviewed the adequacy of disclosure of estimate in the financial statements</li> </ul>	 <b>Green</b>

## Assessment

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

# Significant findings – key judgements and estimates

Summary of management’s policy	Audit Comments	Assessment																								
<p><b>Net pension liability – £766m – (Scheme Liabilities £2,143m, Scheme Assets £1,377m)</b></p> <p><b>Revised: £811m - (Scheme Liabilities £2,160m, Scheme Assets £1,349m).</b></p> <p>The Authority’s total net pension liability at 31 March 2019 per the draft accounts was £766m (PY £634m).</p> <p>The Authority uses Hymans Robertson LLP to provide actuarial valuations of the Authority’s assets and liabilities derived from the Local Government Pension Scheme in which it participates, (which is the Leicestershire Pension Fund, administered by Leicestershire County Council).</p> <p>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<p>PwC were engaged by the Audit Commission (and subsequently the NAO) as consulting actuary to undertake a central review of the actuaries used by the Local Government Pension Scheme (LGPS).</p> <p>They produce a report designed to provide support to auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the LGPS, Police and Fire schemes as at 31 March 2019.</p> <p>We use this report to inform our assessment of the valuation of the pension fund liability in the Authority’s accounts. We have compared the assumptions used by the Authority’s actuary against industry benchmarks. Based on the work performed we are able to conclude that management’s assumptions overall are reasonable.</p> <table border="1" data-bbox="806 606 2150 1005"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.4%-2.5%</td> <td>● (A)</td> </tr> <tr> <td>Pension increase rate</td> <td>2.5%</td> <td>2.4% to 2.5%</td> <td>● (Y)</td> </tr> <tr> <td>Salary growth</td> <td>3.5%</td> <td>3.10%-4.35%</td> <td>● (G)</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.1 years</td> <td>20.6-23.4 years</td> <td>● (Y)</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>24.3 years</td> <td>23.2-24.8 years</td> <td>● (Y)</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.4%-2.5%	● (A)	Pension increase rate	2.5%	2.4% to 2.5%	● (Y)	Salary growth	3.5%	3.10%-4.35%	● (G)	Life expectancy – Males currently aged 45 / 65	22.1 years	20.6-23.4 years	● (Y)	Life expectancy – Females currently aged 45 / 65	24.3 years	23.2-24.8 years	● (Y)	<p style="text-align: center;"> <b>Green</b></p>
Assumption	Actuary Value	PwC range	Assessment																							
Discount rate	2.4%	2.4%-2.5%	● (A)																							
Pension increase rate	2.5%	2.4% to 2.5%	● (Y)																							
Salary growth	3.5%	3.10%-4.35%	● (G)																							
Life expectancy – Males currently aged 45 / 65	22.1 years	20.6-23.4 years	● (Y)																							
Life expectancy – Females currently aged 45 / 65	24.3 years	23.2-24.8 years	● (Y)																							
<p>Since the draft accounts were produced an updated actuarial report incorporating asset valuations as at March 2019 has been received. The financial statements have been updated in this regard.</p> <p>This led to an increase of £17.6m in the net pension liability: the liability in the updated financial statements is now £2,160m. This revised figure is reflective of a £165m net actuarial loss during 2018/19.</p>	<p>The High Court has ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements (GMP) have had on members benefits. The Government announced an “interim solution” for members in public service schemes who reach State Pension Age (SPA) between 6 April 2016 and April 2021. We have reviewed the approach of the scheme’s actuary, Hymans Robertson (HR), in estimating the impact of these on the Council’s pension liability. HR have not made allowance for pre 2021 retirements in their estimate. Utilising the 2018/19 PwC report and our own actuary we believe this would mean that liabilities are understated by approximately 0.1% (£0.8m). This is within our acceptable range and we are therefore satisfied that the Council’s estimation methodology is reasonable.</p> <p>We have also reviewed the:</p> <ul style="list-style-type: none"> <li>• Completeness and accuracy of the underlying information used to determine the estimate</li> <li>• Reasonableness of the Authority’s share of LGPS pension assets.</li> <li>• Reasonableness of increase/decrease in estimate</li> <li>• Adequacy of disclosure of estimate in the financial statements</li> </ul> <p>and have no findings to bring to your attention in this regard.</p>																									

# Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

	Significant matter	Commentary	Auditor view
1	Significant events or transactions that occurred during the year: new payroll system	<ul style="list-style-type: none"> <li>• We have considered the data migration as part of our work on payroll. We conducted testing on the former system earlier on in the year in anticipation of the data migration taking place. We identified no issues with the work undertaken.</li> <li>• We have seen the data migration plan and the review conducted by internal audit in January 2019. We note that internal audit have identified action points that have been designated a “red risk” rating: one of these was that due to the tight timescales of the project, documentation was not available to provide assurance to internal audit that the data being transferred was reconciled at the actual time of the migration.</li> <li>• We have reviewed the control sheet which sets out each migration workbook and concludes whether the files reconciled. We have reviewed a sample of workbooks and have reviewed the reconciliations undertaken.</li> <li>• This has demonstrated that the data from the old system has been transferred to the new system completely and accurately.</li> </ul>	<ul style="list-style-type: none"> <li>• As well as our review of the data migration we have undertaken extended testing on the existence and accuracy of payroll data, which we undertook to address the heightened risk of these assertions, given the implementation of the new system</li> <li>• There are no issues arising from the work we have undertaken.</li> </ul>

# Significant findings - Going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

## Going concern commentary

---

### Management's assessment process

Preparation of income and expenditure budgets for the year ended 31 March 2019

### Auditor commentary

Going Concern is defined as “the concept that the local authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.’

The Authority's financial statements are prepared on going concern basis on the grounds that budgets are in place and are being measured and managed to ensure that liabilities can be met as and when they fall due.

Audit procedures undertaken have not found any indication of the existence of going concern events or conditions which may cast significant doubt on the Authority's ability to continue as a going concern. The Council budgets more than a year in advance and undertakes frequent spending reviews. The 2019/20 budget has been balanced using reserves which is intended following the managed reserves strategy that has been employed over the past few years to build up reserves.

---

### Work performed

### Auditor commentary

We have reviewed the budgetary processes in place and would note the following:

- We are satisfied from our review of the Council's reserves balance that it has sufficiency of usable reserves (i.e. general fund and earmarked reserves) to bolster its finances should its savings plans not be delivered, but clearly reserves can only be used once.
- The Council is rightly concerned that there are a number of unknowns in its funding, especially with regard to the long-awaited social care green paper, which has been delayed for approximately 18 – 24 months, and is critical, given the ever-increasing demand in adult social care. However, in and of itself, this is not considered to cast significant doubt on the Council's ability to continue as a going concern.

We therefore agree with the Council's conclusion that the going concern assumption is appropriate.

---

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit and Risk Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
④ <b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council, which is appended.</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to those organisations with which is banks, invests and borrows from. This permission was granted. Not all requests were received and we are in the process of conducting alternative procedures to obtain the assurance required including liaising with the counterparty directly.</li> <li>We have identified no issues from the work performed to date.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>We conducted a “cold review” on the Council’s 2017-18 financial statements earlier in the year, which identified a number of recommended amendments to be made ahead of the production of the 2018-19 draft financial statements. These were duly actioned and there were no significant disclosure omissions or amendments made to the draft 2018-19 draft financial statements as a result of audit procedures.</li> <li>The Council did, in fact, identify a disclosure adjustment itself in relation to Note 15, Income and Expenditure Analysed by Nature, and adjusted the value of the other services expenses line by removing £242k in respect of the current year and £227m in respect of the period year. This is due to expenditure relating to the collection fund which had erroneously been included within this line item. This is not listed as an audit adjustment as it was identified and brought to our attention by the corporate finance team.</li> </ul>
⑦ <b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management was provided.</li> <li>We commend the Council on the clear presentation of the workpapers provided for audit.</li> </ul>

## Other responsibilities under the Code

Issue	Commentary
<b>1 Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix C</p>
<b>2 Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
<b>3 Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <ul style="list-style-type: none"> <li>• Note that work is not yet completed as the submission deadline is 13 September 2019.</li> </ul>
<b>4 Certification of the closure of the audit</b>	<p>We are unable to certify the closure of the 2018/19 audit of Leicester City Council in the audit opinion as our work on WGA as noted above is not yet complete (see Appendix C).</p>



# Value for Money

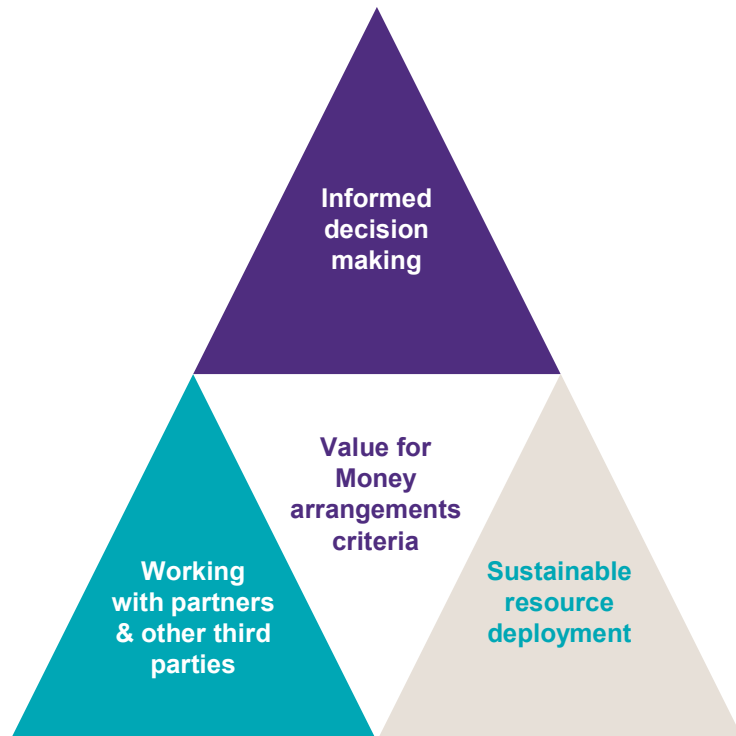
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment throughout January to March 2019 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 6 March 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were in respect of the progress throughout the 2018/19 financial year of the Council in relation to its arrangements to ensure financial resilience as well as how it is addressing the issues identified by Ofsted in its most recent inspections.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 22 to 24.

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Overall conclusion

**Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.**

The text of our report, which confirms this can be found at Appendix C.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
<p><b>1</b> <b>Financial resilience</b></p> <ul style="list-style-type: none"> <li>The Authority has historically managed its finances well, achieving financial targets: however, the scale and pace of change for local government will affect future projections and it is important the Authority is on track to identify and produce savings required to deliver balanced budgets in the future.</li> <li>The General Fund Revenue Budget considered by Council on 21 February 2018 identified that the budget for 2018-19 was in balance following the application of the managed reserves strategy.</li> <li>However it also noted that the Authority would be faced with finding further budget reduction and income generation proposals of over £26 million in 2019/20 with reserves only estimated to be able to meet £10m of this. There is therefore still a gap to address in terms of future funding and savings solutions. Since then the draft General Fund Revenue Budget 2019/20 to 2021/22, has been presented to Overview Committee, which confirms that the budget for has been balanced using reserves to address the underlying gap in resources of £9.6m for the 2019/20 financial year.</li> <li>We will review the Council's Medium Term Financial Strategy and financial monitoring reports and assess the assumptions used and savings being achieved.</li> </ul>	<ul style="list-style-type: none"> <li>The way the Council applies its savings requirements is to take the required savings out of each directorate in the budget. Therefore how it monitors its savings is simply to monitor how it is performing against budget. However, it also flexes the budget as required as the year progresses. This method can sometimes make it difficult for members and observers to assess how the original budget has changed and whether arrangements are working as expected. However, the year end outturn report details how savings have been delivered and there are monitoring reports considered at Overview and Scrutiny throughout the year to mitigate this risk.</li> <li>Whilst the positive General Fund outturn position achieved during 2018-2019, and the resulting adjustments to reserves, will help to support the Council's short term financial position, it does not address the challenging financial position that the Council finds itself in over the medium term; namely identifying an additional £27.3 million of budget reduction and income generation proposals over the period to 2020-2021. The Council are looking at developing savings schemes to fill gaps in future years.</li> <li>The section 151 officer has noted down her risk assessment and adequacy of estimates in the 2019-20 budget as follows:                     <ul style="list-style-type: none"> <li>17.4 There are risks in the 2019/20 budget arising from:-                             <ul style="list-style-type: none"> <li>(a) Social care spending pressures - specifically the risks of further growth in the cost of care packages above budget assumptions, risks to our BCF income due to government expectations (particularly relating to delayed transfers of care) and inability to contain the costs of looked after children;</li> <li>(b) Ensuring spending reviews which have already been approved, but not yet implemented, deliver the required savings;</li> <li>(c) Achievability of estimated rates income (although technically any shortfall will appear as a collection fund deficit in the 2020/21 budget), and particularly the extent of successful appeals against the 2017 revaluations;</li> <li>(d) Achievement of rates income county-wide, affecting the estimated pilot surplus (although this will also appear as a deficit in 2020/21).</li> </ul> </li> </ul> </li> </ul>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>See page 23 for conclusion.</li> </ul>	

Source: General Fund Revenue Budget 2019/20 to 2021/22

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
<p><b>1</b> <b>Financial resilience</b></p> <ul style="list-style-type: none"> <li>The Authority has historically managed its finances well, achieving financial targets: however, the scale and pace of change for local government will affect future projections and it is important the Authority is on track to identify and produce savings required to deliver balanced budgets in the future.</li> <li>The General Fund Revenue Budget considered by Council on 21 February 2018 identified that the budget for 2018-19 was in balance following the application of the managed reserves strategy.</li> <li>However it also noted that the Authority would be faced with finding further budget reduction and income generation proposals of over £26 million in 2019/20 with reserves only estimated to be able to meet £10m of this. There is therefore still a gap to address in terms of future funding and savings solutions. Since then the draft General Fund Revenue Budget 2019/20 to 2021/22, has been presented to Overview Committee, which confirms that the budget for has been balanced using reserves to address the underlying gap in resources of £9.6m for the 2019/20 financial year.</li> <li>We will review the Council's Medium Term Financial Strategy and financial monitoring reports and assess the assumptions used and savings being achieved.</li> </ul>	<ul style="list-style-type: none"> <li>The section 151 officer's assessment highlights the need to achieve budgeted revenues. We have therefore reviewed income collection rates achieved in 2018-19 to assess the Council's success in this area.. For business rates, the Council's collection rate is approximately 97% which is not uncommon. Annual collection rate for council tax is 95%, but collection continues after the year in question and eventually a collection rate of 98% is achieved. Again, this is within the normal parameters seen in the sector. Therefore we conclude, that while the s151 officer has highlighted it as a risk, the Council are starting from a positive position of reasonable collection rates.</li> <li>The budgeted position has been met with use of £10.2m of reserves. This was anticipated and is as a result of the Council's managed reserves strategy whereby reserves have been built up over a number of years in order to provide a buffer when needed. We note that the general fund is at £15m even after use of reserves, and the total level of earmarked reserves as at 31 March 2019 stands at £222m. We have conducted a review of reserves, which demonstrates that even without the identification of further savings the Council has sufficiency of reserves for it to continue for the foreseeable future, though the use of General Fund and earmarked reserves. However, this would necessitate a potential reconsideration of the Council's strategic objectives and therefore confirms the need for savings to be identified and delivered.</li> </ul>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>On these bases we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place to ensure it plans finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</li> </ul>	

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
2	<b>OFSTED</b> <ul style="list-style-type: none"> <li>• There was a joint local review by CQC and OFSTED of the Council and CCG's SEND services. This review led to a letter being issued in June 2018 noting that a written statement of action was required because of significant weaknesses identified in the local area's practice.</li> <li>• We have obtained the statement of action submitted to OFSTED and reviewed how the Council is ensuring that these actions are undertaken and progress against the plan monitored.</li> <li>• Additionally, the Authority has been the subject of a ILACS Focussed Visit of their children's services. We have reviewed this report and considered it as part of our VFM arrangements conclusion.</li> </ul>	<ul style="list-style-type: none"> <li>• Subsequent to our initial risk assessment being undertaken we have obtained the statement of action submitted to OFSTED and reviewed how the Council is ensuring that these actions are undertaken and progress against the plan monitored. In the response from Ofsted upon receipt of the written statement of action, it was noted that the actions were required to address the following significant weaknesses:             <ul style="list-style-type: none"> <li>• the lack of strategic planning to improve the outcomes for children and young people who have SEN and/or disabilities</li> <li>• the poor quality of the education, health and care (EHC) plans</li> <li>• the assessment of children and young people's social care needs</li> <li>• the lack of joint commissioning of services to support young people's health needs post-19</li> <li>• the disjointed approach to preparation for adulthood.</li> </ul> </li> <li>• The action plan that was discussed at the Special Educational Needs and Disability (SEND) board in October 2018 showed that actions were either completed or not yet due but that work was being done in all areas.</li> <li>• In respect of the focussed visit to Leicester City Council's Children Services, (which involved inspectors looking at the local authority's arrangements for children in need and those subject to a child protection plan, including children receiving help and support from the disabled children's service), there was no overall "rating" assigned. However, while it identified there was still work to do, it also included positive messages in relation to the improvement of the quality of social work practice.</li> </ul>	<b>Auditor view</b> <ul style="list-style-type: none"> <li>• From our discussion with key officers and review of the relevant documentation, we can see that the Council are making progress and are monitoring their actions. In addition to the above, the department produce quarterly assurance reports, which are considered by members, and which demonstrate that the Council knows itself well and is continuing to audit itself to identify where further improvements need to be made.</li> </ul>

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	£	Threats	Safeguards
<b>Audit related</b>			
Certification of Housing capital receipts grant	5,000	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, while yet to be confirmed is likely to be relatively small in comparison to the total fee for the audit of £112,884 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.
Grant certification of Housing Benefit Subsidy Claim	53,000	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 when compared to the total fee for the audit of £112,884 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	5,500	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 when compared to the total fee for the audit of £112,884 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.
<b>Non-audit related</b>			
None	-	-	-

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Risk Committee. None of the services provided are subject to contingent fees.

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure £'000
1 Prior Period Adjustment 1: to correct treatment of grants	£3.7m (but taken through MIRS so no impact on bottom line)	£23m 2017-18 £19m 2016-17	-
2 To correct double counting school's treatment of grants	TBC pending receipt of the Council's revised workings	TBC pending receipt of the Council's revised workings	-
3 Revised pensions report to take into account the impact of McCloud <ul style="list-style-type: none"> <li>Increase in past service cost of £17.4m</li> <li>Decrease in return on plan assets of £28.1m</li> <li>Increase in net defined liability of £45.5m</li> </ul>	£45.5m	£45.5m	-
4 Revaluation decrease to correctly reflect the fair value of a surplus asset that had previously been valued at historic cost	-	£1.1m Surplus assets £1.1m revaluation reserve	-
<b>Overall impact in current year</b>	<b>£45.5m</b>	<b>£45.5m</b>	<b>-</b>

## Impact of unadjusted misstatements

There are no unadjusted misstatements identified and there were no prior year unadjusted misstatements identified by the predecessor auditors that we need to take account of in respect of the 2018-19 audit.

# Fees

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

## Audit Fees

	Proposed fee	Final fee	Prior year fee
Council Audit	112,884	121,884 *	146,603
<b>Total audit fees (excluding VAT and those fees to be confirmed)</b>	<b>£112,884</b>	<b>£112,884</b>	<b>£146,603</b>

We are charging additional fees due to the additional work that has been performed as follows:

- Assessing the impact of the McCloud ruling - £3,000

The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have considered the impact on the financial statements along with the relevant audit reporting requirements.

- Pensions, IAS19 - £3,000

The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.

- PPE Valuation, work of experts - £3,000

As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.

The proposed fees are subject to review and agreement with PSAA Ltd. We are not charging for the additional work involved in reviewing the implementation of the new payroll system or the work on opening balances.

## Non Audit Fees

Fees for other services	Fees £'000
<b>Audit related services:</b>	
• Housing capital receipts	5,000
• Housing Benefit Subsidy Claim	53,000
• Teachers Pension Return	5,500
<b>Non-audit services</b>	-
<b>Total excluding those fees to be confirmed</b>	<b>63,500</b>

# Audit opinion

We anticipate we will provide the Council with an unmodified audit report

## Independent auditor's report to the members of Leicester City Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the Annual Accounts of Leicester City Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, Balance Sheet, the Cash Flow Statement, the Housing Revenue Account (HRA) Statements Income and Expenditure, the Housing Revenue Account (HRA) Statements Movement in Reserve, the Collection Fund - Income and Expenditure Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Explanatory Notes to the Core Financial Statements, Policies and Judgements, Housing Revenue Account (HRA) Explanatory Notes and Collection Fund Explanatory Notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

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

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.



# Audit Opinion

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

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

## Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is

is consistent with the financial statements.

## Matters on which we are required to report by exception

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

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

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

## Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on pages 11 and 12, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local

# Audit Opinion

authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Risk Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

## Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

## Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

# Audit Opinion

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

## Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[

Signature]

Grant Patterson, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

[Date]

# Management Letter of Representation

## Leicester City Council Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of Leicester City Council for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance. ding outcome of audit.

- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vi. Except as disclosed in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Council has been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

# Management Letter of Representation

- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

## Information Provided

- xv. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the Council financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

# Management Letter of Representation

**xxiv. Annual Governance Statement**

xxv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

**xxvi. Narrative Report**

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

**xxviii. Approval**

The approval of this letter of representation was minuted by the Council's Audit and Risk Committee at its meeting on 24 July 2019.

Yours faithfully

Name.....

Position.....

Date.....

Signed on behalf of the Governing Body



© 2019 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.