The Audit Findings for Leicester City Council

Year ended 31 March 2020

24 November 2020

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Your key Grant Thornton team members are:

Grant Patterson
Key Audit 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

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.

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 2020 for those charged with governance.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council, such as administration of grants to businesses, closure of schools, leisure and community centres and car parks with additional challenges of reopening services under new government guidelines as well as redeployment of staff to work on all of the above.

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the National Audit Office (NAO) Code of Audit Practice ('the Code'), albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 27 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.

Restrictions for non-essential travel has meant both Council and audit staff are conducting the audit on a wholly remote basis. This has necessitated greater reliance on technology than usual for these remote working arrangements eg video calling, physical verification of assets and completeness accuracy of information produced by the entity.

Remote working has brought challenges, which have been particularly pronounced in undertaking sampling work, where remote working has not quite been able to replicate the efficiencies of being in the same building and having discussions in person.

The completion of our work by the deadline will be dependent on receiving satisfactory responses to all outstanding queries, but we thank officers for their cooperation and assistance to date.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the Code, we are required to report whether, in our opinion, the Council's financial statements:

- give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting and in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements, including the Annual Governance Statement (AGS) and Narrative Report (NR), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work is in the process of completing. It began in mid-June and will be completed by the statutory deadline subject to satisfactory resolution of outstanding work and all outstanding queries. Our findings to date are summarised on pages 6 to 24. We have identified 5 adjustments to date (2 adjusted and 3 unadjusted), none of which impact on the Council's useable reserves.

Audit adjustments are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A.

The status of our work is set out on the following page and while we have not identified any matters to date that would require modification of our audit opinion, clearly this is subject to the completion of outstanding work.

We will however be including two Emphasis of Matter paragraphs; such paragraphs are added to indicate a matter which is disclosed appropriately in the Council's financial statements but which we consider is fundamental to a readers' understanding of the financial statements. These will:

- Highlight the PP&E valuation material uncertainties which is the basis upon which the Council's valuers have provided their valuations.
- Draw the readers' attention to the material uncertainties given on the valuation of Property Fund investments in Leicestershire County Council Pension Fund. As the City Council's share of these assets is material, the uncertainty is required to be disclosed.

These paragraphs do not affect our proposed opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.

Headlines

Value for Money arrangements	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').	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. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks specifically in relation to Covid-19. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in later in this report.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We hope to be able to certify the completion of the audit when we give our audit opinion but this will be dependent on completion of the the procedures pertaining to the whole of government accounts being complete which we undertake on behalf of the National Audit Office.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Status of the audit

The outstanding matters as at the time of writing are set out below.

Red	- completion of our work on pensions, namely receipt of assurances from the auditor of the Leicestershire County Pension Fund and an explanation from the actuary for the differences in the expectations and actuals in relation to the authority's share of scheme assets - final manager and engagement lead review of all of outstanding items once completed
Amber	- receipt of the Council's cashflow forecast to support the going concern assumption - review of the Council's updated financial statements
Green	- completion of our work on the school's bank balances - completion of our procedures on the Council's WGA pack - obtaining and reviewing the management letter of representation - updating our post balance sheet events review, to the date of signing the opinion

Status

- Red - Likely to result in material adjustment or significant change to disclosures within the financial statements or impact upon our auditor's report
- Amber - Potential to result in material adjustment or significant change to disclosures within the financial statements or impact upon our auditor's report
- Green - Not considered likely to result in material adjustment or change to disclosures within the financial statements or impact upon our auditor's report

Audit approach

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 to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the NAO's Code of Audit Practice ('the Code'). Its contents will be discussed with the Audit and Risk Committee.

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 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

Audit approach (continued)

We have had to alter our audit plan, as communicated to you on 27 April 2020, to reflect our response to the Covid-19 pandemic.

- We set out the key aspects of our proposed response to the significant risk we identified (which are those risks that have a high risk of material misstatement). This included action such as working with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and ensuring sufficient, corroborating audit evidence could be obtained
- We updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We did not identify any new VfM risks in relation to Covid-19.

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 levels remain the same as reported in our audit plan (see page 7).

Summary

Our approach to materiality

We detail in the table below our determination of materiality for Leicester City Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	16,500,000	We determined materiality for the audit of the Council's financial statements as a whole to be £16,500,000, which is approximately 1.5% of the Councils 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	10,725,000	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: • We have not historically identified significant control deficiencies as a result of our audit work • We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment • There have not historically been a large number or significant misstatements arising as a result of the financial statements audits at the Council, though there have been prior period errors in both the previous and current year financial statements. • Senior management and key reporting personnel in the finance function has remained stable from the prior year audit
Trivial matters	800,000	We determined the threshold at which we will communicate misstatements to the Audit and Risk Committee to be £800,000, which is approximately 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.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19	We: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported specifically as a result of Covid-19. The draft financial statements were provided on 12 June 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. • engaged the use of auditor experts in respect of Property, Plant & Equipment (PP&E) valuations – refer to pages 11 to 14 and 17 and 18 for further detail on this work. **Material uncertainty applied to valuations** In their reports, the Council's external valuers of its Council dwellings confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. In his initial report, the Council's internal valuer (who considers Other Land and Buildings in his valuations) did not issue the valuation on such a basis. This was queried given our knowledge of valuation bases in the sector at this time, including from the Council's external valuers. Having considered our query, a revised report was produced on the basis of 'material valuation uncertainty'. The Council will need to reflect this uncertainty in it accounts and we will refer to these material valuation uncertainties in our audit report. In a similar vein, the Leicestershire County Council pension Fund has included a material valuation uncertainty in relation to its property funds which form part of the pension scheme assets. Out of £4.1bn total assets in the pension fund, property assets represent £99.6m. As the City Council share of the portfolio is approximately 30%, the Council's share of the property funds is therefore in the region of £30m, which is material to the financial statements. As with the PP&E valuations, the Council has reflected this uncertainty in its accounts and we will refer to these material valuation uncertainties in our audit report. **Events after the balance sheet date** We have asked the Council to give consideration to updating its disclosure of post balance sheet events, to include information relating to funding received since 1 April 2020 and other significant events. To that end the Council has included narrative as part of Note 8 to explain the ongoing impact that the pandemic is having on the authority.

Significant audit risks continued

Risks identified in our Audit Plan	Auditor commentary
The revenue cycle includes fraudulent transactions 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, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition. • opportunities to manipulate revenue recognition are very limited. • the culture and ethical frameworks of local authorities, including the 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**. We have however: • evaluated the Council's accounting policy for recognition of revenues for appropriateness • performed substantive testing on material revenue streams; and • reviewed unusual significant transactions. Our audit work has not identified any issues in respect of improper revenue recognition.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. The main mechanism through which this could occur is through the posting of manual journals amending the reported financial performance. We therefore review the controls established relating to manual journals, including those for authorisation of manual journals.	We have: • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered 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. As in the prior year we noted that there is a lack of established approval process for journals; instead placing reliance on the Council’s day-to-day activities to identify any journals that were posted incorrectly. Since November 2019 the Council has put in arrangements which mitigate this deficiency to a certain extent. Each individual journal is still not counter signed but since November all journals posted in the month are downloaded and split by the department which posted them. The principal accountant of the relevant department who posted them then picks a sample to review, making sure they should have been posted and are correct. This review is signed and dated by the principal accountant and returned to the corporate finance team. We have seen this process and are content it is working as designed. From the sample testing of journals undertaken we have found that they were appropriate, eligible and valid, and can be agreed to supporting evidence. For more in-depth consideration of the Council’s judgements and estimates please refer to pages 16 to 19.

Significant audit risks continued

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings The Council revalues its land and buildings on a rolling basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of its internal valuers to estimate the current value as at 31 March 2020 for other land and buildings and external valuers in respect of council dwellings. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • 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, which has included the user of our own value to assist with our review and challenge • evaluated the competence, capabilities and objectivity of the valuation experts • written to the valuers to confirm the basis on which the valuations were carried out • tested on a sample basis revaluations of the Council's operational properties, investment properties, and HRA properties during the year to ensure they have been input correctly into the Council's asset register and financial statements We have challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding and evaluating the assumptions made by management for any assets not revalued at 31 March 2020, including those in the HRA, and how management has satisfied themselves that the carrying value of these assets in the balance sheet is not materially different to their current value In their reports, the Council's valuers have confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of *'material valuation uncertainty*'. The Council has updated its financial statements to reflect this uncertainty and we will refer to these material valuation uncertainties in our audit report as an emphasis of matter. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year. Such a paragraph is added to indicate a matter which is disclosed appropriately in the Council's financial statements but which we consider is fundamental to a readers' understanding of the financial statements. **Council Dwellings revaluation** The valuation report for Council dwellings does not reflect Council Dwelling Asset additions made during the year. The Council have attributed their own value to these properties, effectively including them at historic cost (using the purchase price) as a proxy for fair value. Our expectation is that the value of Council Dwellings recognised on the Balance Sheet is consistent with the valuation as reported by the Council's external valuer and should include the full housing stock as at the balance sheet date, i.e. including any additions purchased in year. We are satisfied, that given that the value of the additions included in the financial statements is £10.2m, the value of council dwellings can not be materially misstated. The properties have not yet been assigned to Beacons so we have reviewed the stock listing to determine what the average Beacon value is and applied that to the 184 additions to determine an estimated value. Our estimate of £9.1m is not significantly different to the value arrived at by the Council of £10.2m and on that basis we are satisfied with the approach taken in the current year. However, we recommend that in future the Council seek to inform its valuers of any such changes in year to the housing stock to determine the impact of any on the valuation of Council Dwellings at the balance sheet date.

Significant audit risks continued

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings (continued)	**Land and Building revaluation** *Assets not revalued* In our initial review of the financial statements we identified that there was £27.365m of other land and buildings that were not subject to revaluation as at 31 March 2020 and therefore we challenged the Council as to how it had satisfied itself that the carrying value as at the balance sheet date is not materially different to its fair value. As a response to this query, the Council subsequently valued 4 additional assets. No adjustments to the accounts are proposed by the Council as a result of this work as the only large change in valuation is West Gate, which is an increase of £7.174m. The total change is £9.320m (which is below our materiality) and therefore the adjustment has not been made. It has however, been reported to you as an unadjusted misstatement and a recommendation has been made to ensure that the carrying value of assets not revalued is reviewed as part of the closedown process to provide assurance that there is no material difference between the carrying value and the current value. *Consideration of data and assumptions used in the determination of valuation of land and buildings* • We tested 12 surplus assets (with a value of £58.965m, comprising approximately 80% of the total surplus asset net book value as at the year end), by checking the calculations made by the valuer when producing a valuation of the asset, considered the source data used by the valuer, and the assumptions applied. We have no findings to report to you in regard to this work. • We tested 43 other assets (with a value of £258.485m, comprising approximately 20% of the total net book value population of other assets as at the year end), and undertake the same work as listed above in relation to surplus assets. We have the following findings to report: • Our analysis included comparison of the current year valuation to the prior year and identification of any changes. Based on the sample selected there was an understatement of £825k in the 2018/19 financial statements and a net understatement in the 2019/20 financial statements of £1.224m. The majority of the 2019/20 understatement was as a result of a typing error in a valuation certificate leading to an understatement in the valuation of £1.381m. • Based on the error rate from the samples selected we are satisfied that if similar errors were throughout the population of either 2018/19 and 2019/20 there would not be a material error and therefore we are content that the valuation of other land and buildings is free from material misstatement in this regard.

Significant audit risks continued

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings (continued)	**Land and Building revaluation continued** *Reconciliation of valuer's report to the fixed asset register* We reviewed the revaluations reconciliation prepared by the finance team which traces the valuations from the valuer's report to the fixed asset register, which included valuations for 9 assets which had not been processed on the grounds that they had been identified as having been disposed in year. However, of these 9, there were 5 which we could not agree to our disposals testing and so requested further information. These were: 1) Land at Conaglen Road - The asset was written out of the 2017/18 asset register, but this asset was sold in 2020/21. Therefore this valuation should have been processed in 2019/20 and the FAR has been understated since 2017/18. 2) Former Queensmead Junior School site - The asset was written out of the 2017/18 asset register. This asset was actually part sold in 2014/15. The valuation provided by the internal valuer reflects the amount the Council owns and should have been processed. 3) Wanstead Road units 1-23 - This asset was disposed in 2018/19 and ownership was transferred, therefore it was written out of the register. Treatment in the financial statements therefore correct. 4) Former Mundella Community College - This asset was part sold in 2017/18. The valuation provided by the internal valuer reflects the amount the Council owns and should have been processed. 5) 71 Vaughan Way - This asset was part of a land swap in 17/18, so was written out of the 2017/18 asset register. Treatment in the financial statements therefore correct. Items number 3 and 5 above were valued by the valuer even though the Council doesn't own the assets. Items 1, 2 and 4 were valued by the valuer but had been erroneously written out of the fixed asset register and not corrected, or processed for 2019-20. The impact of this is that the net book value of Property, Plant and Equipment has been undervalued in 2017/18, 2018/19 and 2019/20 by £3.202m, £2.490m and £2,490m respectively. **Conclusion** The cumulative understatement of the value of Property, Plant and Equipment in 2017/18 and 2018/19 as a result of the above procedures is determined to £3.202m and £3.315m in 2017/18 and 2018/19 respectively. As these figures are not material no prior period adjustments are required. The cumulative understatement of the value of Property, Plant and Equipment in relation to the 2019/20 financial statements is: • £9.320m as a result of assets not valued • £2.490m as a result of valuations not being processed when they should have been • £1.224m as a result of various errors identified by the valuer as part of our review of testing of assumptions This gives a total understatement of £13.034m, which is not material but is reported to you as an unadjusted misstatement.

Significant audit risks continued

Risks identified in our Audit Plan	Auditor commentary
Valuation of the pension fund net liability The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£615 million in the balance sheet) and the sensitivity of the estimate to changes in key assumptions. We identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • assessed the accuracy and completeness of the information provided to the actuary to estimate the liability • 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 • completed 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 that report The original report produced by the actuary was based on information provided by the Administering Authority and actual returns for the period 1 April 2019 to 31 December 2019 with an estimated return applied to 31 March 2020. An updated actuarial report was subsequently commissioned to reflect the actual return at 31 March 2020. The updated report provided gives a net reduction in the pension liability of £5.280m (primarily due to the actuary taking a more pessimistic view on the impact on asset valuations as a result of Covid-19 in their original estimate than actually was observed). The Council has adjusted the financial statements to reflect this change. The Council's actuary has reported a net defined liability comprising significant "experience "items of £124.859m. These are material but we are satisfied, through liaison with the actuary (via the pension fund), that there is an appropriate explanation for these items. **McCloud judgement** MHCLG is consulting on a remedy for the McCloud judgment that we reported upon last year. The Council's actuary has made assumptions in respect of the liability to reflect the proposed remedy. At whole fund level, the Council's actuaries do not expect the McCloud remedy to have a significant cost impact. Based on typical LGPS funding assumptions, they estimate that total liabilities might increase by around 0.2%. Total liabilities in the Council's IAS19 report were £1.852m and therefore impact would be around £3.7m which is not material. On these grounds we are satisfied that no amendments or disclosures are required. **Conclusion** As well as the outstanding issues above, we have requested assistance from the pension fund auditor to help with our review and pending receipt of this information we cannot conclude upon our work in this area.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	We noted in our audit plan that the public sector will implement this standard from 1 April 2020. The guidance has subsequently been amended to be implemented from 1 April 2021. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. In accordance with IAS 8 disclosures of the expected impact of IFRS 16 should be included in the Council's 2019/20 financial statements. The Council has not included its anticipated impact in the financial statements. If the effect on the financial statements is not practicably estimable the Council is required to disclose that fact, and we therefore raised a recommendation for the Council to add such a disclosure, which has not been amended in the updated financial statements.
Prior Period Adjustment (PPA)	The Council's finance team have brought to our attention that there were two secondary schools which transferred to academy status during previous financial periods, and were not derecognised by the Council when they should have been. In accordance with the requirements of *IAS8 Accounting Policies, Changes in Accounting Estimates and Errors*, prior period adjustments are material omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: a) Was available when financial statements for those periods were authorised for issue; and b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. In order to be classified as a prior period error, both criteria (a) and (b) must be met. From the work we have done we are satisfied that they have been met. We have: • ascertained how the PPA was identified • investigated the facts and circumstances that gave rise to the PPA and what management will do differently to prevent to prevent it recurring • reviewed management's proposed corrections to the financial statements, for both completeness and accuracy • reviewed the disclosures made in the financial statements for completeness and accuracy. The net book values of the two schools in question were £2.804m (from 2017/18) and £24.348m (from 2018/19) at the time they should have been recognised. Management considers the errors to be material by nature (ie qualitative) and furthermore they consider the error to be one (based on a theme) rather than two smaller ones. From a quantitative point of view, per IAS 8, the earlier error (as it is not material) would not usually be corrected through a prior period adjustment, but for the reasons explained above we are not minded to challenge the approach being taken by the Council.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Council Dwellings Draft: £1,001.516m Final: £1,001.516m.	The Council owns in excess of 20,000 properties and is required to revalue these properties in accordance with DCLG'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 (JLL) to complete the valuation of these properties. The total net book value of Council Dwellings was £1,001m, a net increase of £51m from 2018/19 (£951m). Management and their valuer have considered a range of available indices, and have used this to determine an appropriate estimate for the indexation of the Council's dwellings. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's Council Dwellings at 31 March 2020 as a result of Covid-19. The Council has are required to disclose this material uncertainty in the financial statements.	• We have engaged our own valuer to assist with our work and challenge in this area. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. • The housing stock has been divided using the external valuer's judgements and knowledge by applying the beacon methodology. This is consistent with the prior year. • We have considered the indices that the valuer has used in performing the valuation and are discussing the appropriateness of these with the Council and its valuer. • Disclosure of the material uncertainty of the estimate will need to be added to the financial statements and we will refer to the uncertainties disclosed in our audit report. • We have considered the completeness and accuracy of the underlying information used to determine the estimate. We have no matters to ring to your attention except for those already reported to you on page 10 of this report.	● **Green**

Assessment

- ● Red - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Amber - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● 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 estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Other Land and Buildings (including surplus assets) Draft: £1,146m Final: £1,146m	The Council has engaged its internal valuer to complete the valuation of these properties. The Council carries out a rolling programme of valuations that ensures that all property and land (subject to a de minimis of £10k for asset values) required to be measured at current value is revalued at least every five years. Other land and buildings includes 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 revalued in 2019/20 are not specialised in nature and are required to be valued at existing use value (EUV) at year end. The total net book value of Other land and buildings was £1,073m, a net increase of £89m from 2018/19 (£1,162m). The total net book value of surplus assets was £74m, a net decrease of £2m from 2018/19 (£76m). Management and their valuer have taken into account available market data, and considered a range of available indices, and have used this to determine an appropriate estimate for the indexation of the Council's land and buildings. In line with Royal Institute of Chartered Surveyors (RICS) guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council is required to include disclosure of this fact in its financial statements.	• We have engaged our own valuer to assist with our work and challenge in this area. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. • There have been no changes to the valuation method this year. • We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. We have considered the completeness and accuracy of the underlying information used to determine the estate, including reviewing and challenging the floor areas. We have discussed the appropriateness of the indices and assumptions used by the Council's valuer and as our result of our work the valuer and the finance team have identified that the value of other land and buildings is understated by £13.034m as reported on pages 11 and 12. This is not a material amount but has been reported as an unadjusted misstatement. • Disclosure of the material uncertainty of the estimate has been added to the financial statements and we will refer to the uncertainties disclosed in our audit report. A significant amount of work has been undertaken as part of our challenge involving a significant amount of time and effort both on our part as well as on the part of the Council's estates team, finance team and valuer. We are aware that the Council is planning an increased amount of its own quality assurance processes for future years such that any errors are identified and resolved prior to the audit process.	**Yellow/Amber**

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 estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability Draft: £606m Revised: £600m	Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £67m net actuarial gain during 2019/20 as reflected in the daft financial statements. The Council's net pension liability as at 31 March 2020 is £615m comprising obligations under the Leicestershire County Council Pension Fund Local Government Pension Scheme. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return.	• We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council. • We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Leicestershire County Council Pension Fund valuation as it applies to Leicester City Council.	TBC

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.30%	2.30%	(G)
Pension increase rate	1.90%	1.8%-2.0%	(G)
Salary growth	2.4%	1.9%-2.8% scheme-specific	(G)
Life expectancy – Males currently aged 45 / 65	45: 21.5 65: 22.2	20.5 - 22.2 21.6 - 23.3	(G)
Life expectancy – Females currently aged 45 / 65	45: 23.8 65: 25.2	22.9 – 24.3 24.6 – 26.3	(G)

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. We queried the increase in salary increase assumption with the actuary, which has changed significantly since the prior year (a reduction of 0.9%). We are comfortable with the explanation provided by the actuary in that the salary increase assumption is based on the CPI margin, and therefore if CPI moves, the salary increase moves accordingly.
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.

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 estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability Draft: £606m Revised: £600m	(Continued)	• Our expectations relating to the Council's share of scheme assets are materially different to those reported in the actuary's report. We are liaising with our counterparts who are auditing the pension fund to identify an explanation for the difference and therefore pending resolution of this matter our assessment of this accounting area is to be confirmed. • Disclosure of the estimate in the financial statements is considered adequate. At the time of writing we are waiting for information from the pension fund auditor in relation to the IAS19 assurance letters as well as the query on the Council's share of scheme assets referred to above and cannot therefore conclude on our work.	**TBC**
Other accruals and estimates	The Council continues to apply estimates and judgements in a number of areas, such as: • accruals of income and expenditure • recognition of school assets • the preparation of group accounts	• The policies for these items are in line with accounting standards and the requirements of the Code of Practice on Local Authority Accounting • Disclosure of the estimates in the financial statements is considered to be adequate. • As part of our testing, we have reviewed the judgements applied by the Council relating to these items, and significant balance within these have been discussed with management in detail. • We have found on material misstatements in the financial statements relating to these balances from our work to date.	**Green**

Assessment

- Red - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Amber - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- 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 – 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	Auditor commentary
Management's assessment process Preparation of income and expenditure budgets for the year ended 31 March 2021	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 Council'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 budget more than a year in advance: at the Council meeting in February 2019 the 2019/20 budget was agreed, albeit with the use of reserves of £1.8m. This is intentional and is a result of the managed reserves strategy, which was implemented in previous years to build up reserves and "buy time" such that they could be drawn upon as needed. The report accompanying the budget notes that Spending Review 4 was commencing which allocated target savings of £20m across departments. It made clear in no uncertain terms that the budget that the Council was being asked to agree was a one year project as projections due to the volatility and uncertainty of projecting beyond 2019/20.
Work performed	It has been a challenging year due to the Covid-19 pandemic and the impact of this has been administration of grants to businesses, closure of schools, leisure and community centres and car parks with additional challenges of reopening services under new government guidelines, the need to free up capacity of teams in addition to normal responsibilities. The pre-Covid General Fund Revenue Budget for 2020/21 reviewed by Council in February 2020, noted that as a result of the managed reserves strategy and the results of the Spending Review 4 it was possible to balance the budget for 2020/21 using a £2.4m contribution from reserves, which was a £6.5m decrease from the forecast in February 2019. As with the 2019/20 budget this is a one-year budget. 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, particularly the accuracy with which it can project losses in the collection fund during 2021/22 as the knock-on effects of the downturn in economy impact the ability of tax-payers to pay their council tax, and for business to pay their busines rates. The report received by Overview Select Committee in May 2020 noted that the impact on the General Fund could be in the region of £35m, which had increased to approximately £40m by the September report. However, there is an expectation that the government will continue to fund at least some costs that have arisen specifically as a result of the pandemic. 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 matters for communication

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	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Risk Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. We did however, identify as part of our planning work that there were a number of instances (albeit historic) of members not completing their declarations of interests. When we reviewed the related parties disclosures and compared them to companies house we identified some apparent discrepancies, which have been discussed with the Council, leading to interests in respect of three Councillors being updated. We recommend that all those who are required to declare interests are reminded of the need to update them on a real time basis. We have requested an additional disclosure to be made in relation to related parties to reflect an officer who is a Director of Leicester Arts Centre
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	We are proposing the inclusion of additional representations to the standard requirements as follows: • "The prior period adjustment disclosed in Note 6 to the financial statements is accurate and complete. There are no other prior period errors to bring to your attention." • Reference to the unadjusted misstatements as recorded in Appendix B, and • Recognition of the impact of Covid-19 on the valuation material uncertainty.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to those organisations with which it banks, invests and borrows. Permission was granted and the requests were duly sent. 1 investment confirmation remains outstanding and is being actively chased. Of the confirmations received to date, there have been no issues arising.
Disclosures	See Appendix B for the most significant amendments made to disclosures. In addition a small number of amendments were made to improve clarity for the reader.
Other communications	As part of our audit we received information in respect of the Council's policies and operational procedures in respect of the issuing of Fixed Penalty Notices (FPNs) within the City Council's Wardens Services. While we do not believe there is any formal audit action we are required to take at this time (based upon the information we have seen to date) we have been in correspondence with the Council and recommended that it review the suite of key performance indicators utilized in the Wardens Service to ensure that they fully meet the DEFRA Code of Practice on Litter and Refuse expectations in respect of performance being monitored and reported in terms of the impact the Council's actions are having in improving environmental cleanliness.

Other matters for communication (continued)

Issue	Auditor commentary
Audit evidence and explanations/significant difficulties	Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: **Revisiting planning** We have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. **Management's assumptions and estimates** There is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions. We have include an Emphasis of Matter in the Audit Report in respect of the material uncertainty on the value of property, plant and equipment as well as on the property fund assets in the local government pension scheme to which the Council contributes. **Financial resilience assessment** We have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. **Remote working** The most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming. We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC. To reflect the significance of the additional work required we will be proposing an uplift to our scale fees for 2019/20 of 15%. Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We plan to issue an unmodified opinion in this respect, though we will be in dialogue with officers to ensure that the Narrative Report and Annual Governance Statement and any other information is updated as deemed necessary as part of our completion procedures to reflect events since the draft financial statements were produced.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • 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 • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Our work is not yet completed as at the time of writing though it is planned to be completed by the deadline of 4 December.
Certification of the closure of the audit	We do not expect to be able to certify the conclusion of the audit yet as we do not anticipate having completed our work on the Council's Whole of Government Accounts return.

Value for Money

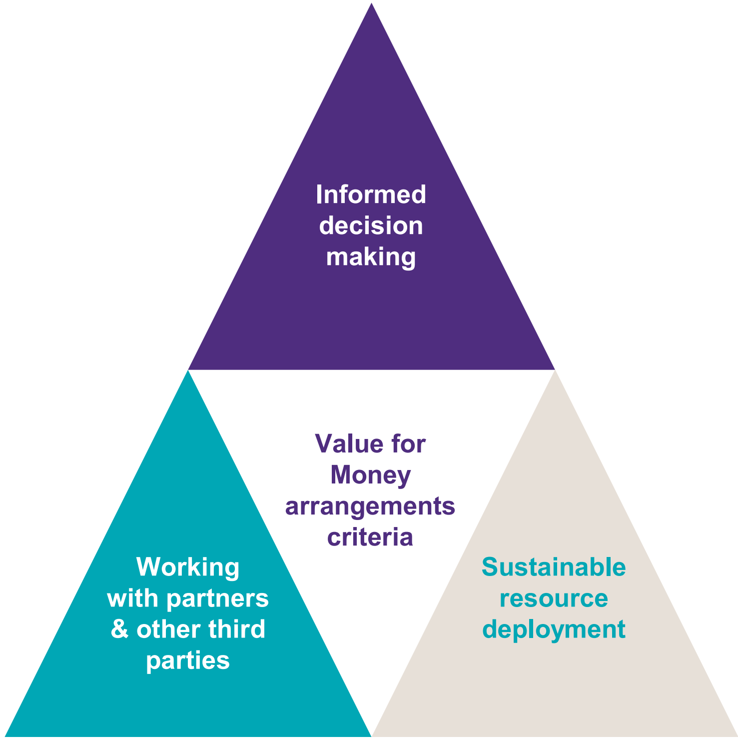
Background to our VFM approach

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 April 2020. 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 in February 2020 and identified a significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. This related to financial planning and sustainability and we communicated these risks to you in our Audit Plan dated 25 March 2020.

We have updated our VFM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VFM risks specifically in relation to the COVID-19 pandemic. However, in light of the emerging issues and having regard to the NAO's AGN 03, we have tailored our response to take into account the areas of increased risk Covid-19 might bring in relation to financial resilience and service failure.

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.

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 risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The outturn from 2019/20 compared to forecast and savings for 2020/21 updated to reflect likely shortfalls in income as a result of COVID.

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

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.

Value for Money

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

Financial Resilience

Significant Risk – what we said in our Audit Plan

- 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.
- The General Fund Revenue Budget considered by Council on 20 February 2019 identified that the budget for 2019/20 was in balance following the application of the managed reserves strategy.
- However, it also noted that the Authority would be faced with finding further budget reduction and income generation proposals and there is therefore still a gap to address in terms of future funding and savings solutions.
- Since then the General Fund Revenue Budget 2020/21 to 2021/22, has been approved at Council on 19 February. It confirmed that while the budget for 2020/21 has been balanced using reserves, savings from the previous rounds of spending reviews are still being sought. The report noted that projections of spending and income have been made beyond 2020/21 but that they are “uncertain and volatile”.
- We will review the Council's Medium Term Financial Strategy and financial monitoring reports and assess the assumptions used and savings being achieved.

Findings

General Fund

The Government’s lockdown, announced on 23 March 2020, has meant that many business have been forced to close, significantly impacting on the local economy, which in turn impacts on the Council’s commercial income. Furthermore, the Council has had to put considerable resources into ensuring that rough sleepers are safe during this period and that the most vulnerable are cared for.

On 2 July 2020 the government announced further funding and financial support for local authorities. These were:

- £500m of non-ring-fenced grant funding for local authorities across England. The funding is similar to the first two tranches of government support and focusses on the additional financial burdens that have arisen from the pandemic
- A new scheme to help reimburse local authorities for lost income during the pandemic and boost cashflow for local authorities. This is predicated on Councils covering the first 5% of income losses from sales, fees and charges and the government reimbursing councils for 75 % thereafter.
- Any preceptor deficits on a council’s Collection Fund can be paid over three years rather than all in one year.

Value for Money

Financial Resilience (continued)

Findings (continued)

Revenue Budget Outturn, 2019/20

2019-20	CURRENT BUDGET	Outturn	Variance
Neighbourhood & Environmental Services	31,446.0	31,443.9	(2.1)
Tourism Culture & Inward Investment	4,270.1	4,787.0	516.9
Planning, Development & Transportation	15,215.9	15,506.1	290.2
Estates & Building Services	4,821.9	5,155.8	333.9
Departmental Overheads	1,020.9	709.6	(311.3)
Housing Services	2,822.8	2,974.3	151.5
City Development & Neighbourhoods	**59,597.6**	**60,576.7**	**979.1**
Adult Social Care	**109,141.3**	**101,709.8**	**(7,431.5)**
Health & Well Being	**18,557.0**	**18,169.9**	**(387.1)**
Strategic Commissioning & Business Support	1,039.4	1,165.2	125.8
Learning Services	10,550.8	11,646.5	1,095.7
Children, Young People & Families	60,055.5	58,791.3	(1,264.2)
Departmental Resources	(2,766.8)	(2,724.1)	42.7
Education & Childrens Services	**68,878.9**	**68,878.9**	**0.0**
Delivery, Communications & Political Governance	5,659.5	5,971.9	312.4
Financial Services	11,215.5	11,215.5	0.0
Human Resources	3,899.0	3,586.6	(312.4)
Information Services	9,263.6	9,263.6	0.0
Legal Services	2,673.8	2,673.8	0.0
Corporate Resources & Support	**32,711.4**	**32,711.4**	**(0.0)**
Housing Benefits (Client Payments)	500.0	(2,133.0)	(2,633.0)
Total Operational	**289,386.2**	**279,913.7**	**(9,472.5)**
Corporate Budgets	(157.6)	(5,624.5)	(5,466.9)
Capital Financing	6,005.9	5,238.2	(767.7)
Total Corporate & Capital Financing	**5,848.3**	**(386.3)**	**(6,234.6)**
In year Spending Review Savings	0.0	(1,689.0)	(1,689.0)
Public Health Grant	(26,103.0)	(26,103.0)	0.0
Managed reserves Strategy	(1,763.4)	(1,763.4)	0.0
Demographic pressures reserve	(3,455.0)	(3,455.0)	0.0
TOTAL GENERAL FUND	**263,913.1**	**246,517.0**	**(17,396.1)**

The reported revenue budget outturn report is shown here, as reported to Overview Select Committee (OSC) on 29 July 2020 in the Council's Revenue Budget Monitoring Outturn 2019-20 .
Whilst the positive General Fund outturn position during 2019-20, 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 ensuring that any further budget reductions required are achieved. It was reported in the General Fund Revenue Budget 2020/21 that while the budget for 2020/21 has been balanced using reserves, projections of spending and income beyond 2020/21 are uncertain and volatile and therefore just a one year budget was set.

Subsequent to this the economic environment has become even more uncertain as a result of the pandemic.

Consideration of 2020/21 budget
The Council is undertaking scenario planning and closely monitoring the financial impact of Covid-19. Officers recognise that this is a complex, evolving and iterative process.
The Council is currently forecasting the net impact of Covid -19 to be in the region of £6.0m.

This comprises a mix of expenditure pressures as well as lost income generation. £33m has been received in additional grant funding, but this still leaves a gap to be bridged. These plans are based upon a set of assumptions which are likely to change including how long the recovery is likely to take, how much of the lost income will be recovered and how much of the pre Covid-19 income will return in time. There is also the potential for further surges in the virus and potential lockdowns.

The Council predicted in its July report to OSC that income losses could be as much as £18.4m and increased costs could be as much as £15.8m. There are expected to be further pressures in Council Tax Support and Local Tax Payments of £2.0m and £2.5m respectively giving a potential total pressure of £38.7m. The Council has already received unring-fenced funding of £24m to help meet some of these additional costs, and will undoubtedly receive additional funding through the government's income losses scheme (as referred to in the last bullet point above), but what the value of this funding might be is uncertain, though it has been estimated by the Council to be in the region of £10m.

Value for Money

Financial Resilience (continued)

Findings (continued)

It reported at that time that due to the managed reserves strategy the shortfall calculated would be able to be met by the Council. However, the impact above is not based on any further second wave and assumes no further full lockdowns take place. While these aren't unreasonable assumptions to make, the environment is uncertain and therefore it is possible that the Council will be faced with looking at measures to reduce spending on non-essential functions where possible in order to reduce this impact over time.

Review of savings plans

The Council's policy under its managed reserves strategy is not to remove savings from budgets until they have been achieved, to avoid storing up potential overspends when savings which have been planned for are not subsequently achieved. Thereafter the Council applies these savings to its ongoing budget by removing them from the relevant directorate. However, it also flexes the budget as required as the year progressed, which can 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 Scrutiny throughout the year.

As at October 2019 the most recent budget monitoring report at that time identified that additional savings had been identified for 2019-20, the actioning of which has meant that budget has been achieved. The Council is looking at developing savings schemes to fill gaps in future years and review the budget on an ongoing basis. The revenue budget report on notes that the proposed budget at that time had an underlying budget cap of £2.4m which was a £6.5m decrease from the forecast in February 2019 and is evidence of continual monitoring of not only the Council's current position but its forecasts.

The proposed budget for 2020/21 has an underlying budget gap of £2.4m, which represents a £6.5m decrease from the forecast in February 2019. The main changes to the budget position are summarised in the table below:

	2020/21 changes £m
Spending Reviews and other savings	3.1
Growth in local tax base (council tax & business rates)	4.3
Social care pressures (in excess of additional government resources)	(4.8)
Pay inflation	(2.7)
Reduced level of cuts to general funding	4.2
Collection fund surplus (one-off)	1.8
Other changes	0.6
Net decrease in budget gap since February 2019	**6.5**

Value for Money

Financial Resilience (continued)

Findings (continued)

The section 151 officer has noted down her risk assessment and adequacy of estimates in the 2020/21 budget as follows:

- Social care spending pressures
- Ensuring spending reviews deliver the required savings
- Achievability of estimated rates of income
- Increases in pay costs over and above the 2.5% average pay award are included in the proposed budget

As part of our analysis and given the importance of the achievability of income, we have reviewed income collection rates achieved thus far in 2019/10 to assess the Council's success in this area. For business rates collection rate is approximately 96% which is slightly below the national average (98%) but not significantly different. Annual collection rate for council tax is 95%, but as the *Income Collection April 2019 – March 2020* report notes collection continues after the year in question and eventually a collection rate of 98% is achieved. Again, this is within normal parameters. Therefore conclude, that while the s151 officer has highlighted it as a risk, the Council are starting from a positive position of reasonable collection rates.

The budget seeks to manage these risks as follows:

1. A minimum balance of £15m reserves will be maintained;
2. A one-off corporate contingency of £2m is included in the budget for 2020/21;
3. A planning contingency is included in the budget from 2021/22 onwards (£3m per annum);
4. pending Review savings are being implemented as soon as possible, and the resulting savings "banked" to support future budgets.

In support of this the table below shows the forecast reserves available to support the managed reserves strategy which was subsequently increased to £47.892m as a result of in year transfers in 2019/20.

The table below shows the forecast reserves available to support the managed reserves strategy:-

	£m
Brought forward 1st April 2019	33.6
Use planned in budget	(1.9)
Additional savings in-year	1.7
Forecast carry forward 1st April 2020	**33.4**
Required in 2020/21	(2.4)
Uncommitted balance	**31.0**

Value for Money

Financial Resilience (continued)

Findings (continued)

Consideration of 2020-21 assumptions

The budget provides for:

- council tax increase of 4% in 2020/21, which is the maximum available without a referendum, (with 2% of these being for the ‘social care precept’).
- increase in pay costs of 2.5% (as an estimate as at the time of preparing the budget the pay scales had not been determined, so this was a provision held centrally to meet the cost)
- independent adult sector care inflation of 2% (2019-20: 2%)
- foster care inflation of 2% (2019-20: 2%)

All of which are deemed reasonable in the current climate. However, the Council recognises that there are still many uncertainties with which to grapple:

- the ongoing impact of Covid-19 costs: some costs are known but some, for instance business rate and council tax collection rates are based on assumptions as they are dependent on how much support the government continue to provide to those responsible for paying such rates and taxes and whether they find themselves able to pay.
- the ongoing impact of Covid-19 on income: the government’s scheme to provide subsidy for lost income is (all relevant losses, over and above the first 5% of planned income from sales, fees and charges, will be compensated for at a rate of 75p in every pound) is welcome, but it is not clear how long the funding will last, nor what the value of the funding might be so the Council has had to make assumptions accordingly
- the results of the comprehensive spending review, which are due out later this year along with the settlement figures thereafter

The Council is aware it will need to monitor decisions from the Government with regard to funding and respond accordingly. While the Council report that the budget approved is a one year budget it nevertheless set out forecast position for what 2021/22 would look like, but it is important to note that this is before the impact of Covid is taken into account and shows a gap in resources of £6m. The managed reserves strategy table above as well as our own review of reserves shows that the Council can weather this shortfall in the short term if savings cannot be made, but there is inevitably an ongoing need to for the Council to continue revisiting is projections and forecasts as new information on Covid costs, guidance and requirements comes to light.

Conclusion

On the basis above we have 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.

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

The audit-related services referred to on the following page are consistent with the Council's policy on the allotment of such work to your auditors. None of the services provided are subject to contingent fees.

Independence and ethics

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 audit-related services were identified as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	5,075	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 £5,075 in comparison to the total fee for the audit of £133,234 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 timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Teachers Pension Return	5,500 (expected)	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 £5,500 in comparison to the total fee for the audit of £133,234and 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 timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	54,000 (expected)	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 £54,000 in comparison to the total fee for the audit of £133,234and 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 timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Action plan

We have identified 7 recommendations to date for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	**Valuation process** A number of errors were identified in relation to the Council's valuation process, across a variety of areas such as asset lives, typographical errors in valuation certificates and discrepancies in the valuation list and the fixed asset registered in terms of which valuations were processed	We recommend that the Council applies its own quality assurance processes on the valuations for future years such that any errors are identified and resolved prior to the audit process. **Management response** Work is currently being undertaken to ensure better controls around valuations going forward.
Medium	**Additions to Council Dwellings** The valuation report for Council dwellings does not reflect Council Dwelling Asset additions made during the year. The Council has attributed their own value to these properties, effectively including them at historic cost (using the purchase price) as a proxy for fair value. Our expectation is that the value of Council Dwellings recognised on the Balance Sheet is consistent with the valuation as reported by the Council's external valuer and should include the full housing stock as at the balance sheet date, i.e. including any additions purchased in year.	We recommend that in future the Council seek to inform its valuers of any such changes in year to the housing stock to determine the impact of any on the valuation of Council Dwellings as at the balance sheet date. **Management response** Management agree with this recommendation and will ensure it is actioned going forward.
Medium	**Internal valuer's terms of engagement** Our auditor's valuers advised us that from their review of the instructions provided that in respect of the internal valuer, whilst it may be that the Valuer has not issued the formal terms of engagement document in the past it is an area which has been under closer scrutiny in recent years by the RICS. They conclude that it is just as, or even more important, for an Internal Valuer to issue this document as there are additional areas within the legislation for terms of engagement which are specifically aimed at internal valuers (in relation to objectivity etc). Therefore, they recommended that within the instruction the client should ask for this document to be completed. This was duly produced but noted here so that this is considered as part of the arrangements going forward and an agreement drawn up as part of the process for future year-ends.	We recommend that the Council ensures that it has a formal terms of engagement with its internal valuer as part of the valuation process. **Management response** Management are working with the valuer to ensure a terms of engagement are issued going forward.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
Medium	**Differences between carrying value and current value** In our initial review of the financial statements we identified that there was £27.4m of other land and buildings that were not subject to revaluation as at 31 March 2020 and therefore we challenged the Council how it had satisfied itself that carrying value as at the balance sheet date is not materially different to its fair value. As a response to this query, the Council subsequently valued 4 additional assets. No adjustments to the accounts are proposed by the Council as a result of this work as the only large change in valuation is West Gate, which is an increase of £7.1m. The total change is £9.3m (which is below our materiality) and therefore the adjustment has not been made. It has however, been reported to you as an unadjusted misstatement and a recommendation made to ensure that the carrying value of assets not revalued is reviewed as part of the closedown process to provide assurance that there is no material difference between the carrying value and the current value.	We recommend that the Council enhance its closedown process to include consideration of the carrying value of any assets not valued to ensure carrying value is not materially different to current value. **Management response** Work is currently being undertaken to ensure better controls around valuations going forward.
Medium	**Declaration of interests** We identified as part of our planning work that there were a number of instances (albeit historic) of members not completing their declarations of interests. When we reviewed the related parties disclosures and compared them to companies house we identified some apparent discrepancies, which have been discussed with the Council, leading to interests in respect of three Councillors being updated. We recommend that all those who are required to declare interests are reminded of the need to update them on a real time basis.	We recommend that all those who are required to declare interests are reminded of the need to update them on a real time basis. **Management response** Management will work to improve the governance around this going forward.

Action plan

Assessment	Issue and risk	Recommendations
Medium	**Fixed Penalty Notices** As part of our audit we received information in respect of the Council's policies and operational procedures in respect of the issuing of Fixed Penalty Notices (FPNs) within the City Council's Wardens Services.	We recommend that the Council reviews the suite of key performance indicators utilized in the Wardens Service to ensure that they fully meet the DEFRA Code of Practice on Litter and Refuse expectations in respect of performance being monitored and reported in terms of the impact the Council's actions are having in improving environmental cleanliness. **Management response** Agreed.
Medium	**Review of savings and ongoing monitoring** Council policy as part of the managed reserves strategy has been not to remove savings from budgets until they have been achieved, such that savings are not built into budgets that are not subsequently not achieved. The Council is aware that there needs to be monitoring of progress of savings that need to be achieved through the spending reviews.	We note as part of our VFM commentary that while the Council can weather any shortfall in the short term if savings cannot be made, there is an ongoing need for the Council to continue revisiting its projections and forecasts as new information on Covid costs, guidance and requirements come to light. **Management response** The Council is closely monitoring the financial pressures being place on it due to the COVID-19 pandemic and are regularly reporting this to the Overview Scrutiny Committee.

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

Any adjusted and unadjusted misstatements agreed with management and made to the draft accounts will be set out in the next iteration of our Audit Findings Report. One adjustment has been agreed to date which is set out below but as work is ongoing, further misstatements could be identified. We will update the Committee at its next meeting with a further iteration of our Audit Findings Report.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure
Capital Grants Receipt in Advance The finance team brought to our attention an error in the Capital Grants Receipt in Advance: it erroneously retained £4.3m for Basic Need Grant that should have been recognised in 2019/20.	Increase grant income by £4.3m	Reduce grant liabilities by £4.3m	Decrease net expenditure by £4.3m
Adjustment in respect of revised IAS19 actuarial report The original report produced by the actuary was based on information provided by the Administering Authority and actual returns for the period 1 April 2019 to 31 December 2019 with an estimated return applied to 31 March 2020. An updated actuarial report has subsequently been commissioned and an updated report provided which gives a net reduction in the pension liability of £5.3m. **There is a net nil impact on the general fund in respect of this adjustment due to statutory adjustments the Council is required to make.**	Decrease of associated CIES lines by £5.3m	Decrease liability by £5.3m	Decrease net expenditure by £5.3m
Overall impact	**£9.6m**	**£9.6m**	**£9.6m**

Audit adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Impairment Accounting policy	Accounting policy to be updated to ensure that it is in line with the Code.	Yes
IFRS 16 disclosure	Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, the accounts should state this. The accounts to be updated in this regard.	Yes
Material estimation uncertainty – PPE	Both valuers have now provided their valuation on the basis of "material valuation uncertainty". This therefore represents estimation uncertainty which we would expect to be disclosed. Note 5 has been updated in this regard.	Yes
Material estimation uncertainty – pension fund	As there is a material uncertainty in the pension fund accounts in relation to property assets, and the Council's share of these assets is material, this therefore represents an estimation uncertainty which we would be expect to be disclosed. Note 5 has been updated in this regard.	Yes
Prior period adjustment accounting policy	As the Council have included a prior period adjustment at Note 6, a corresponding accounting policy is required.	Yes
Note 1 Accounting Policies - Property Plant and Equipment	Accounting policy amended to make clear that surplus assets should be measure at fair value rather than current value.	Yes
Note 4 Critical Judgements in Applying Accounting Policies	This narrative has been expanded to include the Council's judgement in relation to schools. The Property, Plant and Equipment figure disclosed on the Balance Sheet includes 2 maintained schools that the council has substantial control over, but does not legally own. If these schools were omitted it would reduce the Property, Plant and Equipment figure by £8.5m.	Yes
Note 15 Expenditure & Income Analysed by Nature	This note was prepared prior to two late journals that reallocated Income and Expenditure items and therefore the breakdown of other service expenses and fees & charges found to be incorrect when reconciling transaction totals to the note. Impact is to increase other service expenses by £7,902k and reduce Fees & Charges by £7,902. This is a reclassification adjustment only and has a net nil impact on the general fund.	Yes
Note 16 - Capital Commitments	Commitments in relation to Pioneer Park Workspace and Leisure Centre Improvement Programme have been updated to agree to supporting evidence.	Yes
Pooled Budgets Care Fund	Whilst the Council is not the lead for this pooled budget, due to the significance of the amounts involved it was agreed to add the memorandum account to note 31.	Yes
Events after the balance sheet date	Note 18 has been updated to reference Covid-19 and the ongoing impact of the pandemic on the Council.	Yes

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which, to date have not been made within the final set of financial statements. The Audit and Risk Committee is required to approve management's proposed treatment of all items recorded within the table below. As work is ongoing, further misstatements could be identified. We will update the Committee at its next meeting with a further iteration of our Audit Findings Report.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure	Reason for not adjusting
Assets not valued In our initial review of the financial statements we identified that there was £27.4m of other land and buildings that were not subject to revaluation as at 31 March 2020. 4 additional assets were subsequently revalued which would have the effect of increasing the Council's other land and buildings by £9.3m. **There is a net nil impact on the general fund in respect of this adjustment.**	-	Increase valuation by £9.3m Increase revaluation reserve by £9.3m	-	Not considered to be material
Valuations not processed During our reconciliation of the valuer's certificates to the fixed asset register we identified assets which had not been processed but should have been. Had these adjustments been processed the value of the Council's other land and buildings would have increased by £2.490m. **There is a net nil impact on the general fund in respect of this adjustment.**	-	Increase valuation by £2.5m Increase revaluation reserve by £2.5m	-	Not considered to be material
Valuation errors As a result of various errors identified as part of our sample testing of valuations it was identified that the Council's other land and buildings are undervalued by £1.224m. **There is a net nil impact on the general fund in respect of this adjustment.**	-	Increase valuation by £1.2m Increase revaluation reserve by £1.2m	-	Not considered to be material
Overall impact	**£-**	**£13m**	**£-**	

Impact of prior year unadjusted misstatements

There were no prior year unadjusted misstatements identified that we need to take account of in respect of the 2019/20 audit.

Fees

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

Audit fees	Draft fee	Proposed final fee
Council Audit	112,884	133,234
Uplift to scale fees to reflect additional work required as a result of the Covid-19 outbreak - indicative	-	16,933
Total audit fees (excluding VAT)	**£112,884**	**£150,167**

The disclosure in Note 34 of the accounts is as follows and with the exception of rounding we are satisfied that statutory fees as well as non-audit fees for other services as set out in this report, reconciles to the financial statements, with the exclusion of the proposed uplift as this fee is not yet agreed and is subject to approval by PSAA.

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors:

	2018/19	2019/20
	£000	£000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	113	133
Fees payable for the certification of grant claims and returns for the year	53	54
Fees payable in respect of other services provided during the year	11	11
Total	**177**	**198**

Non-audit fees for other services	Fees
Audit Related Services:	
• Housing capital receipts	5,075
• Teachers Pension Return	5,500
• Housing Benefit Subsidy Claim	54,000
Non- Audit Related Services	-
Total non- audit fees (excluding VAT)	**£64,575**

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