The Audit Findings for Leicester City Council

Year ended 31 March 2023

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings 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. Its contents will be discussed with management and the Governance and Audit Committee.

Grant Patterson

Name: Grant Patterson
For Grant Thornton UK LLP
Date: 27 March 2024

1. 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 2023 for the attention of those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Council's financial statements give a true and fair view of the financial position of the Council and its 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 prepared 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) is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.	Our audit work was undertaken via a hybrid approach of remote and on site working from July to date. Our findings are summarised on pages 3 to 31. Audit adjustments made to the financial statements are detailed in Appendix D. The impact of these adjustments on the statement of financial position is £27.8m, however due to the requirements of local government accounting there is no impact on the General Fund. There are also misstatements we have identified from our work which have a net impact on the comprehensive income and expenditure statement of £6.3m. The Council's management are minded not to amend the accounts for on the basis that they are not material quantitatively or qualitatively. The Governance and Audit Committee, in their role as those charged with governance, is asked to confirm their agreement with management's proposal. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C. In our previous Audit Findings Report, we noted that there had been delays to the completion of the audit with queries that were still outstanding, most notably in respect of Property, Plant and Equipment (PP&E). This work has now been completed, however we have been reporting issues in the valuation process since 2019/20, recommending each year that the Council improve in this area and it is disappointing to have such findings recur. This was due to several factors, but particularly a change in personnel, coupled with a lack of documentation, has led to the valuations team redoing an element of the valuation work, as the previous work could not be supported. Additionally, the identification of a number of errors in our sampling, has led to additional work, and in some cases, extended testing in the areas of valuation of council dwellings, grants, debtors, additions, expenditure completeness, FTE data and journals. The Council was subject to a cyberattack on 7 March 2024. The audit was substantially complete at this date, and we are not relying on any further information from the Council's IT systems to provide us with assurance that the financial statements are not materially misstated; therefore, we have assessed there to be no impact upon our ability to conclude the 2022/23 audit. However, we will be undertaking detailed work alongside our IT colleagues to understand the impact (if any) of the cyberattack on the audit of the Council's 2023/24 financial statements. A summary of work outstanding is set out on page 6, with further detail set out in the coming pages. To date there are no matters of which we are aware that would require modification of our audit opinion [Appendix H]. We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated financial statements audit report opinion will be unmodified. We have not been able to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. A further explanation of the significant weakness we have identified in the Council's arrangements is detailed on page 32 of this report.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We identified a significant weakness in the Council's arrangements for financial sustainability and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our findings are set out in the value for money arrangements section of this report (Section 3) and will be reflected within our audit opinion.

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 will be unable to certify completion of our audit until the following pieces of work are complete:

- we have received one objection in relation to the 2022/23 financial statements, in relation to Selective Licensing, the work for which is currently underway.

While, not an objection, we received queries from an interested party pertaining to related party disclosures, which we have considered as part of our audit procedures. Our findings in respect of this matter are presented in an additional Related Parties enquiry report, alongside this report.

Significant matters

As noted on page 3 we have continued to encounter significant difficulties in our audit of the Council's PP&E valuations, specifically its other land and buildings, which are valued by the Council's internal valuation team, as detailed on pages 14 and 15 of our report.

As a result of this, as well as to reflect time spent on additional testing to gain appropriate assurance following fails identified in our sample testing, we will be raising a fee variation. This is set out in further detail at Appendix E.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

The level of audit work required has increased significantly in the last few years reflecting the raised bar of audit quality standards and we recognise that this has impacts on the level of questions and queries raised, as well as the quantum and robustness of evidence expected. While there are outstanding issues yet to resolve, we would like to acknowledge the support of the Council in working with us thus far.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

The Council is historically risk averse in this way (it does not have investment properties for instance), and we have not identified any areas of concern at the Council from the work done to date. However, as noted later in this report, financial sustainability is becoming ever more challenging for the Council. In seeking to identify alternative methods of balancing the books in the future in the face of high costs and high demand, the Mayor and Council need to be alert to the risk that decisions could be made, which may benefit in the short-term but have longer term disadvantageous implications i.e. on the Council's minimum revenue provision for example. The Mayor and members will therefore need to ensure their arrangements continue to support making decisions, which are informed, and affordable in the longer term.

1. Headlines

Status of the audit: the outstanding matters as at the time of writing are set out below.

●

- receipt of the Council's consideration of post balance sheet events and any updates to the Annual Governance Statement (for issues identified up to the date of signing, that were pertinent to the financial year being audited)
- updating our post balance sheet events review, to the date of signing the opinion, including consideration of any updates to the Council's disclosed contingent liabilities and whether any additions to the Council's provisions balance is required (based on outcome of any legal cases for instance)
- obtaining and reviewing the management letter of representation

Status

- 🟥 High potential to result in material adjustment or significant change to disclosures within the financial statements
- 🟧 Some potential to result in material adjustment or significant change to disclosures within the financial statements
- 🟩 Not considered likely to result in material adjustment or change to disclosures within the financial statements

2. Financial Statements

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 Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be discussed with the Governance and Audit 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 Council's internal controls environment, including its IT systems and controls; and substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

The work reported on aligns with the audit plan, as communicated to you on 27 September 2023.

Conclusion

We have now completed the majority of our audit work on your financial statements, though as noted on the previous page there are still several matters that need to be resolved. If these are resolved satisfactorily we anticipate issuing an unqualified audit opinion, as detailed in Appendix I. We will update the Committee verbally of progress against these matters at the meeting on 18 April 2024.

Acknowledgements and summary findings

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

As highlighted on pages 3 and 4, during the course of the audit both your finance team and our audit team faced significant challenges, such as:

- Lack of evidence to support the valuations of other land and buildings for the obsolescence factor applied
- Error identified in capital debtors leading to additional testing
- Error identified in receipts in advance with an offsetting error in debtors leading to additional testing
- Errors identified in the treatment of capital additions leading to further testing
- Consideration of errors below the Council's accrual de minimis level in its agency costs expenditure as well as in its debtors balance
- Consideration of expenditure incurred post year end that should have been accounted for in the 2022/23 financial year but wasn't, leading to additional testing
- A starting employee at the Council was input incorrectly into the payroll system for April. This was corrected in the following month, but as we rely on this data being accurate for our payroll testing, we extended our sampling of starters to gain assurance that this error was not pervasive
- Evidence was provided to us as part of our journals testing indicating that a senior officer was posting to the ledger by proxy (ie asking someone else to post something they themselves had prepared). This led to additional audit procedures being undertaken.
- We identified in our testing of council dwellings that a 2-bedroomed property had been misclassified into a beacon for a 6-bedroom property. We extended our sampling to gain assurance that this error was not pervasive.
- We identified in our testing of the valuation of council dwellings that, as last year, for timing reasons, the valuations are performed using the most recent information available which is prior to the year end. We asked the Council to revisit the valuations taking into account the updated information as at the year end, which showed that the valuation would move materially. This led to additional audit procedures being undertaken.
- Errors identified in the treatment of grant income leading to further testing.

These matters have resulted in us incurring additional costs, as summarised in Appendix E to gain sufficient and appropriate audit assurance in respect of our auditor's opinion on the financial statements.

2. Financial Statements

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 on 27 September 2023.

We set out in this table our determination of materiality for Leicester City Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	16,400,000	Benchmarked to 1.4% of the Council's gross expenditure. We have determined this to be the level of misstatement which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
Performance materiality	10,660,000	This drives our sample sizes. It is based on 65% of the headline materiality. This is a reduction from the default of 75% to reflect the level of errors identified in the previous year.
Trivial matters	820,000	At 5% of headline materiality, this is the value above which we will report misstatements to the Governance and Audit Committee, as those charged with governance.
Materiality for senior officer remuneration	25,737	We have applied our headline materiality % of 1.4% to the total senior officer remuneration value of £1.8m, as this disclosure is particularly sensitive and of interest to the reader.

2. Financial Statements: Significant risks

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

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	**Commentary**
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities. The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We • evaluated the design and implementation of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness • reviewed and tested items identified as part of transactional testing to ensure they have been appropriately charged to either the General Fund or the Housing Revenue Account (HRA) as appropriate **Findings** Journals authorisation process We reported to you in our audit plan and at prior audits that there continues to be a lack of an established approval process for journals which places heavy reliance on the expectation for the Council's day-to-day activities to identify and correct any improper postings. The Council is aware of this, and officers perform retrospective review of a sample of journals posted. We have reviewed documentation evidencing this review and are satisfied that this in place. Nevertheless, this represents a control deficiency which the Council is willing to tolerate but which we took consideration of in our approach by increasing the number of journals selected for review. We identified no instances of management override from this review. However, this control deficiency also impacts our findings in respect of journal inquiries overleaf. See page 10 for more detail. Unit 4: Segregation of duties As in prior year, the review performed by our IT audit colleagues identified four unique users of the Unit 4 application, who hold both administrative access and financial responsibilities to the Unit-4 application via 'AG-SYSTEM' role. This poses a conflict in terms of Segregation of Duties (SOD), as these users have the ability to perform actions that could potentially compromise financial data and violate internal controls. This findings has been reported to the Council in previous years and the risk accepted on the grounds that this access is required for the smooth and effective functioning of the Council's processes and procedures. Nevertheless, this represents a control deficiency. We have mitigated against this deficiency by analysing the journals posted by these individuals and selecting those that appeared unusual for further testing. From the work performed, we identified no instances of management override.

2. Financial Statements: Significant risks

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

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls (continued)	Consideration of General Fund and HRA We are satisfied that we have not identified any breaches of the HRA ringfence from the work performed. Journal inquiries Evidence in support of one or the journals tested, demonstrated that a senior officer (which we defined as being Chief Accountant and above) had posted to the ledger by proxy (ie by asking another officer to post something on their behalf, something that they themselves had prepared). We would usually not expect senior officers to be posting to this ledger and therefore consider this to be an override of control. In our November 2023 report we stated that we had extended our inquiries and identified a further 7 officers who confirmed they had posted on behalf of someone else. This has subsequently been reduced to 6 following clarification from an individual that they hadn't. We identified 34 journals that officers identified as being posted on behalf of a senior officer. The total impact of these journals is approximately £1.48 billion; however we noted that the majority relate to year end Collection fund postings which do include large balances in line with auditor expectations. We have reviewed the journals in question to ensure they are valid and represent appropriate business activity. Given that the Council has no automated authorisation process, this raises particular concerns, as it means that officers are posting journals prepared for them by more senior officers, who may then be responsible for the retrospective review of said journal. This has the potential to render the retrospective review ineffective, if the reviewer is reviewing their own work. We have raised a recommendation in the action plan for the Council to consider in response to this finding. Conclusion We have concluded our work in respect of this risk and have no further findings to report. We are satisfied that we have obtained sufficient assurance.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan | **Commentary**

Presumed risk of fraud in revenue recognition ISA (UK) 240

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of Leicester City Council, (fees, charges and other service income, interest and investment income, income from council tax, income from non-domestic rates, housing rents and government grants and contributions), we reported to you in our audit plan that we had rebutted the presumed risk of material misstatement due to the improper recognition of revenue, because:

- There is little incentive to manipulate revenue recognition
- Opportunities to manipulate revenue recognition are very limited; and
- The culture and ethical frameworks of public sector bodies, including Leicester City Council, mean that all forms of fraud are seen as unacceptable.

Therefore, we did not consider this to be a significant risk for the Council. We revisited this assessment during the course of our work and did not change our assessment.

Notwithstanding that we have rebutted this risk, we have still undertaken a significant level of work on the Council's revenue streams, as they are material. We:

- evaluated the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code
- updated our understanding of the Council's business processes associated with accounting for income
- agreed, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence.
- conducted substantive analytical procedures in relation to income for national non-domestic rates and council tax
- sample tested grants income to supporting information and subsequent receipt, considering accounting treatment where appropriate.

Findings

Our findings below are not in relation to our work on the risk of fraud in revenue recognition, but are a response to the other work we have set out above, given the material revenue streams in place at the Council.

Debtors

In our testing of the Council's debtors balance we identified an amount of £428k which had been posted for capital financing purposes but represented an internal debtor and therefore should not have been included in the Council's financial statements. This means that the Council's debtors balance is overstated by £428k. We isolated this error to capital debtors and selected a further sample to identify if the error is more widespread. We identified no further errors and are satisfied therefore that the overstatement above is isolated. Because of its size (it is considered trivial) we are not reporting it as an unadjusted misstatement but note it here for completeness so that those charged with governance are aware of the additional work undertaken to support this conclusion.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Presumed risk of fraud in revenue recognition ISA (UK) 240 (continued)	Debtors (continued) We have however noted as part of our follow up review, that management have not accrued for an invoice raised at the year-end, due to the de minimis policy of not accruing for any transactions below £1k. We have gained assurance that the invoices raised under £1k received in March to April 2023 would not pose a risk of material misstatement if they were all not accrued for, due to the size of the population in question. We are therefore satisfied that this provides us with assurance that management's assessment that this policy would not materially impact the accounts is appropriate. However, the last time management formally undertook such an assessment was in 2016/17. We recommend that this assessment is done on an annual basis to ensure that the conclusion that the accounts would not be materially misstated as a result of this policy, remains the case. Debtors and receipts in advance In our testing of the Council's debtors balance we identified an amount of £2.9m relating to a leasehold annual service charge for 2023/24. As this relates to 2023/24 it should not have been accounted for in the Council's financial statements, meaning that both the debtors balance and receipts in advance balance are overstated by £2.9m. As both are overstated, there is a net nil impact on the balance sheet. We have conducted additional testing on transactions that appear similar in nature to identify if this error is more widespread. No further issues were identified from the additional work performed. This is reported as a disclosure misstatement In Appendix D. Grants income In gathering evidence in support of sample testing of grants income, management advised that a double counting error had been identified relating to two of our sample items. In their investigations a third such instance of double counting was identified. We are satisfied that the error is isolated to these three cases such that income from grants is overstated by £1.419m with an offsetting understatement in expenditure. This is reported to you in Appendix D as a misclassification. We have raised a recommendation for the Council to add checking processes to avoid such double counting. Fees, charges and other service income In our initial testing we identified an invoice for £6.6k which related to 2021/22 but had been recognised as income in 2022/23. When extrapolated across the population this led to an amount greater than our tolerable threshold and therefore our testing was extended. We identified no further errors but are reporting an extrapolated uncertainty of £3.087m. This means that if we assume that this error is representative of the population, when it is projected, there is a risk that fees, charges and other service income is overstated by £3.087m. This is reported in Appendix D as an unadjusted misstatement in 2022/23 but will not impact upon resources available to the Council. Conclusion As noted above, there are errors that have been identified in our testing of revenue, though none of the errors identified are considered to be indicative of fraud, which would require our response to the presumed risk of fraud in revenue recognition to be revisited.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Risk of fraud related to expenditure recognition Public Audit Forum (PAF) Practice Note 10	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition. Having considered the nature of the expenditure streams of Leicester City Council, and on the same basis as that set out above for revenue, we reported in our audit plan that we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition. We have revisited this assessment during our work and have not amended our conclusion. Notwithstanding that we have rebutted this risk, we have still undertaken a significant level of work on the Council's expenditure streams, as they are material. We: Expenditure • updated our understanding of the Council's business processes associated with accounting for expenditure • agreed, on a sample basis, expenditure and year end creditors to invoices and cash payment or other supporting evidence We also designed tests to address the risk that expenditure has been overstated, by not being recognised in the current financial year. **Conclusion** We have not identified any findings in relation to the risk of fraud related to expenditure recognition. However, we have reported our findings pertaining to our testing of expenditure on page 18.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Valuation of land and buildings

The Council revalues its low value land and buildings on a rolling, five-yearly basis, with high value assets annually valued.

This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.

Within the valuation of the Council's Other Land and Buildings, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build cost of relevant assets carried at depreciated historic cost and any judgements that have impacted this assessment and the condition of the current assets.

For assets valued at existing use value and fair value, the key inputs into the valuation are the yields used in the valuation, including estimated future income from the asset.

We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

We:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- wrote to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met
- challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding
- engaged our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end.

Findings

<u>Assets valued at depreciated replacement cost</u>

As noted in our audit plan and above, our approach to assessing the reasonableness of management's valuation of assets includes an evaluation of the assumptions applied to the calculation of the estimate. One such assumption applied is the obsolescence factor, (to recognise that an asset loses value over time). We queried how these assumptions had been derived and management were unable to provide supporting information. This is because the valuer responsible for valuing the assets had left the Council subsequent to providing the valuation, and the rationale applied was not documented. The valuations team have subsequently revisited the valuations for the sample of assets we selected for testing and have determined a revised value of those assets which was £14.7m less than the previous valuation. Management's view was that the the initial valuation was not incorrect because valuation is subjective, and it is reasonable that two valuers could review the same asset and derive a different valuation.

We asked the Council to document its overall conclusion and rationale as to why, or why not, this difference is within professionally accepted ranges in which different valuers could reasonably reach difference conclusions. We have reviewed the revised valuations and after performing our own analysis, we are satisfied that the adjustments proposed are within this range outlined by RICS. Given that the reduced valuation is based on a sample of 15 assets only, management have assessed the implications of this on the remaining 140 assets in the population. Based on the revised valuations, we have determined an estimation uncertainty of approximately £7.9m by considering how the valuation of the remaining assets might change if they were subject to a similar revision. We are satisfied that this is not material and is in line with the range outlined by RICS. The Council has determined not to revalue all remaining assets in the category on the basis that it is satisfied the original valuation is not materially incorrect. It will however adjust for the 15 assets that have been revalued as these are factual differences; however, it is worth noting that there have been further adjustments to these valuations identified through the course of our audit work. We identified errors of £10.8m in total, and the Other Land & Buildings (OLB) and Surplus asset valuation amendments have been reported as an adjusted misstatement in Appendix D.

As the initial valuation provided to us was not supported by appropriate audit evidence it has led to the need for additional audit work and additional work by officers. We have raised recommendations in this regard for a number of years, specifically highlighting the need for assumptions and judgements applied to be clearly documented at the time they are made. We therefore continue to roll forward this recommendation in Appendix C.

Other findings from the work done to date are noted below:

<u>Note 15 - Valuation timings note</u>

We have identified a misstatement in the valuation timings note due to the inclusion of the gross book value of highways infrastructure. This inclusion renders the note inconsistent with the PP&E note, as management has opted not to include Highways Infrastructure therein. This is considered to be a disclosure amendment only and will be adjusted in the financial statements.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Continued	Tests of accounting of revaluation When an asset's valuation decreases year on year, Code requirements are for any amounts pertaining to that asset in the revaluation reserve to be taken account out first and if that balance is extinguished to then take differences to the CIES. We identified a number of assets in the fixed asset register where this approach had not been applied. The impact is that charges to the revaluation reserve are understated by £1.037m. There is a further example of an asset which has been depreciated by £1.025m when we believe it should have been treated as a downwards revaluation. Capital expenditure not adding value The Council has a policy to recognise capital expenditure in year even though it is not considered to add value to the asset. The asset is then revalued downwards to offset the value of the capital expenditure incurred. Management reviewed all of the capital expenditure in the year that has been revalued to nil and provided their judgements for recognising as capital, and why the expenditure was deemed to not add to the current value of the associated assets. One error was identified as a result of this exercise: expenditure of £1.036m relating to Pioneer Park – Levelling Up, was inappropriately revalued to nil, when it should have been recognised as capital enhancing expenditure as it relates to the construction of a new workspace. The assets to which the expenditure relates have been revalued in year therefore no impact on the PPE net book value and this is a classification adjustment of £889k between revaluation charged to the CIES and revaluation reserve. The Council has elected to adjust its financial statements in this regard. Valuation of land at travellers' sites The valuer has applied a nil value in respect of the land component of these sites, which has not been updated in the Council's fixed asset register, on which the financial statements are based. The value of the land of these assets is £1.164m, which means that the financial statements are overstated. The Council has elected to adjust its financial statements in this regard. Infrastructure depreciation As noted above the Council's PP&E notes are informed by the Fixed Asset Register which is a spreadsheet driven by formulae. We identified an error in the amount of depreciation charges to highways infrastructure which has arisen due to a hard coded deduction of £2.6m in the depreciation formula for each of the 5 highway infrastructure assets in the register, (ie £12.9m in total), which relates to the prior year and has been included this year in error. Additions In our additions testing, we identified an error whereby an automated Goods Received Not Invoiced (GRNI) accrual was raised in error because the goods were marked as goods receipted, when they had not been. We extended our testing and identified three additional errors of this type, with the four errors totalling £712k in total. We have determined that the projected misstatement across the relevant population of this error is £3.543m, ie that the PP&E balance is potentially £3.543m overstated. We are reported this as an unadjusted misstatement in Appendix D. We have also raised a control recommendation for the GRNI process to be reviewed, so that such errors are avoided. Assets valued at existing use value We selected 20 assets to test on a judgemental basis and identified errors of £12,977k. The total value of OLB and Surplus asset valuation amendments has been reported as an adjusted misstatement in Appendix D. We selected a sample of assets to review with year-on-year movements in line with expectations. We identified errors of £147k from a total valuation tested of £21.3m. If we assume the error rate to be indicative of the population as a whole this would suggest that the value of existing use value assets is understated by £1.310m. We have reported this as an unadjusted misstatement in Appendix D. **Conclusion** We have concluded our work in this area and have no further findings to report.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Council Dwellings The Council contracts an expert to provide annual valuations of council dwellings based on guidance issued by the Ministry of Housing, Communicates and Local Government (now Department for Levelling Up, Housing and Communities). They are valued using a beacon approach, based on existing use value discounted by the relevant social housing factor for Leicester. Dwellings are divided into asset groups (a collection of property with common characteristics) and further divided into archetype groups based on uniting characterises material to their valuation, such as numbers of bedrooms. A sample property, the “beacon” is selected which is considered to be representative of the archetype group and a detailed inspection carried out. The valuation of this asset is then applied to all assets within its archetype. The key inputs into the valuation are the social housing factor, consideration of market movements and the determination of the beacons. We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.	We • evaluated management’s processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • wrote to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding • engaged our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council’s valuers’ work, the Council's valuers’ reports and the assumptions that underpin the valuations • tested revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end. Findings Beacon application We identified in our testing of the application of beacons that a 2 bedroomed house had been categorised incorrectly in a beacon for houses with 6 or more bedrooms. We doubled the size of our testing population and found no further errors. We are therefore satisfied that this is an isolated error. There is no impact on the valuation of Council Dwellings as the value assigned to the beacon was materially appropriate. Indexation Dwellings not subject to formal revaluation in year are indexed by the valuer to ensure the carrying value is not materially different from the current value at year end. We challenged management whether the indexation was based on an appropriate indices as the valuer’s workings showed that the land registry data used in indexing the assets was partially estimated, due to delays in Land registry obtaining house prices sales for March. The valuers have revisited their work using the more recently available data for March and have concluded that the valuation is overstated by £16.7m, which will be adjusted in the financial statements. This is a similar finding to prior year, and we have followed up the recommendation made then at Appendix C. Conclusion We have concluded our work in this area and have no further findings to report.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability/surplus The Council's pension fund net liability/surplus, as reflected in its balance sheet represents a significant estimate in the financial statements, despite its value in the unaudited accounts this year as £nil. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). However, for the first time since IFRS have been adopted the council has had to consider the potential impact of IFRIC 14. Because of this we have assessed the recognition and valuation of the pension asset/liability as a significant risk, due to the sensitivity of the estimate to changes in key assumptions. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.	We: • updated our understanding of the processes and controls put in place by management to ensure that the pension fund balance is not materially misstated and evaluate the design of the associated controls • evaluated the instructions issued by management to their management experts (the 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 pension fund valuation • assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liabilities • tested the consistency of the pension fund balance and disclosures in the notes to the core financial statements with the actuarial reports from the actuary • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report **Findings** Actuarial report The Council obtained a revised IAS19 report from its actuary which updates for the actual return on assets as at the balance sheet date rather than an estimate which featured in the original valuation. There was no change to the value of the liability (£nil), the interest on pension liability (£16.347m) but there will be amendments made to adjust for other experience adjustments charged to the CIES (which has been amended from £54.379m to £53.262m) and return on assets (which has been amended from £32.780m to £69.449m). IFRIC 14 IFRIC 14 addresses the extent to which an IAS19 surplus can be recognised on the balance sheet. The Council's original actuarial valuation showed that there is a pension asset as at 31 March 2023 of £79m. A revised valuation was provided which reduced this to £38m but the Council have not recognised this in the financial statements, instead including a £nil balance (ie neither a pension asset or a pension liability). This is because IFRIC 14 requires consideration of the extent to which any existing surplus will give rise to a reduction in future contributions to the plan or refunds from the plan. The economic benefit available as a reduction in future contributions cannot be negative. Therefore, where IAS19 future service costs are less than future service contributions the figure is floored at £0. This is the conclusion that management has reached as estimated minimum funding contributions will exceed the service cost, and therefore it is considered that it is not appropriate to account for the surplus as an asset. Where an asset ceiling is applied, the Code requires the effect of the asset ceiling to be disclosed. The Council has added appropriate commentary to Note 5 Estimation Uncertainty in this regard.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Continued	Pension fund auditor We seek to obtain assurances from the auditor of the Leicestershire County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund's financial statements. The pension fund auditor noted an overstatement of assets due to the actuary's use of an estimated rate of return to calculate the fund's assets. The Council's share of this is £4,877k. They also noted an understatement in the valuation of an asset, and the Council's share of this is £2,237k. We do not consider these findings to be material and furthermore we have conducted our own analytical procedure on the pension assets and were satisfied with all conclusions drawn. Due to the asset ceiling adjustment, the misstatements do not impact the primary statements and are instead a classification adjustment within Note 42. Conclusion We have concluded our work in this area and have no further findings to report.

2. Financial Statements: other risks

Risks identified in our Audit Plan	**Commentary**
Completeness of non-pay operating expenditure Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. During the course of the three previous audits, there have been instances of expenditure not being accrued for which has led to further testing being conducted to ensure that no material misstatement existed. We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention	We • evaluated the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness • gained an understanding of the Council's system for accounting for non-pay expenditure • tested a sample of balances included within trade and other payables • tested a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period. • tested a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period. **Findings** Agency costs Similarly, to the outcome of our debtors testing, we identified from our sampling that an invoice for £380 related to 2021/22 but had been accounted for in 2022/23. This is because it fell below the de minimis limit for accounting for accruals. We considered whether there was a risk of material misstatement in expenditure as a result of this policy. We reviewed the invoices received between March 2023 and May 2023 and determined that there is no risk of material misstatement if they were all not accrued for, due to the size of the population. We are therefore satisfied that this provides us with assurance that management's assessment that this policy would not materially impact the accounts is appropriate. However, the last time management formally undertook such an assessment was in 2016/17. We recommend that this assessment is done on an annual basis to ensure that the conclusion that the accounts would not be materially misstated as a result of this policy, remains the case. Payments made post year-end In order to test the completeness of expenditure we sampled the payments made by the Council subsequent to the year end. We identified payments made that related to 2022/23 which had not been accrued for and were advised that this was due to the lack of a project manager allocated to monitor these particular capital expenditure items. We conducted further testing on this project (as well as to consider whether there were any other such projects without a project manager) and identified additional accruals which had not been made. We are reporting an unadjusted misstatement of £738k in this regard: that is to say that because of the missing accruals, the Council's expenditure is understated by £738k. We are not reporting this as an unadjusted misstatement as it is below our trivial threshold, but we report it here for completeness given that it involved extended testing. **Conclusion** We have concluded our work in this area and have no further findings to report.

2. Financial Statements: other risks

Risks identified in our Audit Plan	Commentary
Completeness, existence and accuracy of cash and cash equivalents The receipt and payment of cash represents a significant class of transactions occurring throughout the year, culminating in the year-end balance for cash and cash equivalents reported on the statement of financial position. Due to the significance of cash transactions to the Council, we identified the completeness, existence and accuracy of cash and cash equivalents as a risk requiring special audit consideration.	We • agreed all period end bank balances to the general ledger and cash book; • agreed cash and cash equivalents to the bank reconciliation; • agreed all material reconciling items and a sample of other items to sufficient and appropriate corroborative audit evidence; • obtained the bank reconciliation for the following month end and review the reconciling items against those included on the period end bank reconciliation; • wrote to the bank and obtain a bank balance confirmation; • agreed the aggregate cash balance to the relevant financial statement disclosures **Findings** As part of our work, we tested school balances that feed into the disclosed cash and cash equivalent balance to ensure that they are accurate. To ease with closedown pressures, the Council determined the value of the schools' bank balances to be included in the financial statements as at the end of February rather than March. We compared the February values used to the bank confirmations we received as at the year-end for a sample of 22 accounts and identified that the accounts were overstated by a value of £1.45m. To identify the overall impact on the financial statements we extended our testing to cover more bank accounts with the aim of identifying a quantifiable amount as opposed to projecting a potential misstatement. In total we tested 66 bank accounts and identified a total variance of £3.24m between the bank confirmation and the value per the financial statements, with the financial statements being overstated. This is included in Appendix D as an unadjusted misstatement and we have raised a recommendation for the Council to revisit the closedown process in this regard to ensure that the 31 March cash balances are recorded in the accounts. **Conclusion** We have concluded our work in this area and have no further findings to report.

2. Financial Statements: new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
Note 14 – Expenditure by Nature • The Code requires that a local authority discloses information on the nature of expenses it incurs, including depreciation and amortisation expense and employee benefits expense. The Council meets this requirement of the Code through *Note 14 – Expenditure and Income analysed by nature.*	We identified during mapping of the expenditure by nature note to supporting documentation that items had been misclassified between categories as follows: • An amount of £4.428m in other service expenses is better classified under depreciation, amortisation, impairment. • Similarly, an amount of £24m in fees and charges is better classified under Government grants and contributions. For 2021/22 it is proposed that the comparators are similarly updated so that the year-on-year balances are like for like: • An amount of £294k in other service expenses is better classified under depreciation, amortisation, impairment. • Similarly, an amount of £17m in fees and charges is better classified under Government grants and contributions.	We reported in our 2021/22 Audit Findings Report that other services expenses and depreciation figures were incorrect in this note due to hard coding of figures within the accounts working paper before all transactions were posted. This indicates that errors of this nature will continue to recur unless the workings are automated and hard coding removed. We have raised a recommendation in this regard at Appendix B.
Full time equivalent data • In our testing of payroll data we identified an error in our review of full-time equivalent numbers, relating to a starting employee whose details were wrongly included in the April figures.	This was identified as an error by the Council at the time and corrected in the following month. However, because we rely on the FTE data being accurate on a month-by-month basis for the purposes of our payroll testing, we extended our sample to determine whether this was indicative of an isolated error or whether it was pervasive.	No issues were identified from our extended testing and therefore we concluded we were able to rely on the FTE data for our payroll testing.

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £1,293m (audited figure)	Other land and buildings comprises £996m of 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 (£242m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end., with the balance being surplus assets. The Council uses its internal valuation team to complete the valuation of properties as at 31 March 2023. Approximately 99% of total assets were revalued during 2022/23. Management has considered the year end value of non-valued properties and has not identified indications that the valuation of these assets has changed by a material amount, which would warrant further formal valuations being undertaken. The total year end valuation of land and buildings (including surplus assets) in the unaudited accounts was £1,305m, a net increase of £75m from 2021/22 (£1,230m).	We have engaged our own valuer to assist with our work and challenge in this area, who has raised questions which we have used to inform our audit queries. We have considered the movements in the valuations of individual assets and their consistency with indices provided by Montague Evans as our auditor's expert. We have considered the completeness and accuracy of the underlying information used to determine the estate. We have discussed the appropriateness of the indices and assumptions used by the Council's valuer and have identified errors as set out on pages 14 and 15. As noted on page 14, the initial valuation could not be supported in relation to the obsolescence factors applied, leading to the valuations for our sampled assets to be reperformed. Based on the revised valuations, we have determined an estimation uncertainty of approximately £7.9m by considering how the valuation of the remaining assets might change if they were subject to a similar revision. We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council, but given the errors identified, continue to recommend that the Council improve its processes and retention of documentation in this area.	We consider management's process is appropriate subject to actioning the recommendation we have raised

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Dwellings - £1,230m (audited figure)	The Council owns 19,435 dwellings 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 Wilks Head and Eve LLP to complete the valuation of these properties. The unaudited year end valuation of Council Housing was £1,246m, a net increase of £85m from 2021/22 (£1,161m).	• We challenged the Council on why it is deemed appropriate to apply the revaluation accounting treatment to the asset base as a whole rather than individual assets. The response is that Council Dwellings are held in a separate data system and that the valuation is done by an external valuer based on the beacon valuation system. Due to the sheer volume of assets involved and because all assets are revalued in year, the bottom-line result of the Housing Revenue Account (HRA) system is what is included in the accounts. • We have reviewed relevant guidance which confirms it is permissible for revaluations to be applied at the asset group level and are therefore satisfied that management's approach is not unreasonable. • We note that as last year, the valuers prepared the valuation using estimated indices. This is to be expected given the required timing of the production of the valuation but we recommended in the prior year, and would expect, that the valuation is revisited when actual information becomes available so it can be compared to the estimate. Subsequent to audit team prompt, this exercise was undertaken and a revised valuation including a decrease of £16.7m (see Page 45). We have reviewed the new valuation and are satisfied with the amendment. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council, but given the issue identified, we continue to raise a recommendation for the Council to revisit this estimate as part of its accounts preparation process. • For other findings in relation to Council Dwellings please refer to page 16.	We consider management's process is appropriate subject to actioning the recommendation we have raised

2. Financial Statements: key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management’s approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td>Funded scheme net pension liability/(surplus) – £nil

Unfunded scheme net pension liability/(surplus) – £36m

IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments.

IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.</td>
<td>The Council is disclosing a £nil net pension liability, for the funded scheme, at 31 March 2023.

The Council uses Hymans Robertson to provide actuarial valuations of the Council’s assets and liabilities derived from the scheme to which it contributes, which is the Leicestershire County Council Local Government defined benefit scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2022. Given the significant value of the net pension fund liability (surplus), small changes in assumptions can result in significant valuation movements. There has been a £590m net actuarial gain during 2022/23.</td>
<td>

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.

<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>4.75%</td><td>4.75%</td><td>Satisfactory</td></tr>
<tr><td>Pension increase rate</td><td>3.20%</td><td>3.15% - 3.30%</td><td>Satisfactory</td></tr>
<tr><td>Salary growth</td><td>3.45%</td><td>2.95% - 3.95%</td><td>Satisfactory</td></tr>
<tr><td>Life expectancy – Males currently aged 45/65</td><td>45: 20.8
65: 21.7</td><td>19.1 – 21.5
20.4 – 23.2</td><td>Satisfactory</td></tr>
<tr><td>Life expectancy – Females currently aged 45/65</td><td>45: 23.9
65: 25.3</td><td>21.9 – 23.9
23.9 – 26.1</td><td>Satisfactory</td></tr>
</table>

No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.

</td>
<td>We consider management’s process is appropriate.</td>
</tr>
</table>

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions - £10.6m	The Council discloses at Note 24 a list of provisions made as at 31 March 2023. They are: • Insurance: £3.6m • Housing Benefits £0.7m • Housing £0.5m • Business Rate Appeals £5.9m	The value of these provisions, both individually and in aggregate is not material and therefore we have performed limited work in assessing the reasonableness of these provisions. However, we have identified the completeness of provisions as a risk, i.e. the risk that the Council is not recognising all of the liabilities that it should be. We are particularly cognisant of the claim lodged by Biffa Group Holdings (UK) Limited and group companies, as disclosed in Note 43 Contingent Liabilities. It is disclosed as a contingent liability and not recognised as a provision as the Council have opined that the existence will be confirmed only by the occurrence of an uncertain future event not wholly within its control, i.e. the outcome of the claim. We are leaving this item open until such point as the accounts are signed. This is because if the claim moves through the courts, such that there is an outcome, it may need to be provided for, though we understand from the officers that this is now not likely to be until 2025.	We consider management's process is appropriate

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £14.8m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £14.8m, a net increase of £1.0m from 2021/22.	We have assessed this estimate, considering: • whether the MRP has been calculated in line with the statutory guidance • whether the Council's policy on MRP complies with statutory guidance. • whether any changes to the authority's policy on MRP have been discussed and agreed with those charged with governance and have been approved by full council • the reasonableness of the increase in MRP charge From the work undertaken we have no findings to report .	We consider management's process is appropriate

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

This work was completed to inform our audit risk assessment and was therefore completed before the cyberattack upon the Council on 7 March 2024. The audit was substantially complete at this date, and we are not relying on any further information from the Council's IT systems to provide us with assurance that the financial statements are not materially misstated; therefore, we have assessed there to be no impact upon our ability to conclude the 2022/23 audit. However, we will be undertaking detailed work alongside our IT colleagues to understand the impact (if any) of the cyberattack on the audit of the Council's 2023/24 financial statements.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks and any additional procedures performed to address findings identified
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	
Active Directory	ITGC assessment (design and implementation effectiveness only)	🟢	🟢	🟢	🟢	This pertains to overall security management and access rights and therefore links to all risks noted in the audit approach. No additional procedures were necessary
Business World/Unit 4 – financial reporting	ITGC assessment (design and implementation effectiveness only)	🔴	🔴	🟢	🟢	This system is related to the Council's financial reporting and therefore links to all risks noted in our audit approach. The findings are consistent with prior year and are noted in Appendix C. We conducted additional procedures in our testing of journals to respond to the risk of management as a result of these findings.

Assessment

- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟡 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

2. Financial Statements: Information Technology

			ITGC control area rating			
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks and any additional procedures performed to address findings identified
i-Trent	ITGC assessment (design and implementation effectiveness only)	🟢	🟢	🟢	🟢	This system is related to the Council's payroll processes and therefore relates to our risk of the valuation of the net pension liability as we agree information provided to the actuary by the Council to source payroll data.
Civica	ITGC assessment (design and implementation effectiveness only)	🟢	🟢	🟢	🟢	This system is related to the Council's council tax, business rates and housing benefits processes and therefore pertains to the risk identified of the completeness of non-pay operating expenditure.

Assessment

- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟡 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Not in scope for testing

2. Financial Statements: other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Governance and Audit Committee and have not been made aware of any incidents in the period other than those which are reported to Committee from the local counter fraud services. No 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, though we have undertaken additional work. Our findings in respect of this matter are presented in an additional Related Parties enquiry report, alongside this report.
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	A letter of representation has been requested from the Council, which is set out at Appendix H.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to organisation with which it banks, invests and borrows. This permission was granted, and the requests were sent. The requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements in relation to accounting policies, but we identified some changes to disclosures which are set out in Appendix D.
Audit evidence and explanations/ significant difficulties	We continue to encounter challenges in obtaining robust evidence supporting the Council's valuations of its other land and buildings. Due to personnel changes, our questions could not be answered, and the valuations were therefore revisited by a different valuer. We continue to recommend that the rationale behind judgements and assumptions applied is evidenced and documented as the valuations are produced. If this process had been in place in respect of the valuations for the year ended March 2023, it is likely that significant time and effort could have been saved on the part of the audit, finance and valuation teams.

2. Financial Statements: other communication requirements

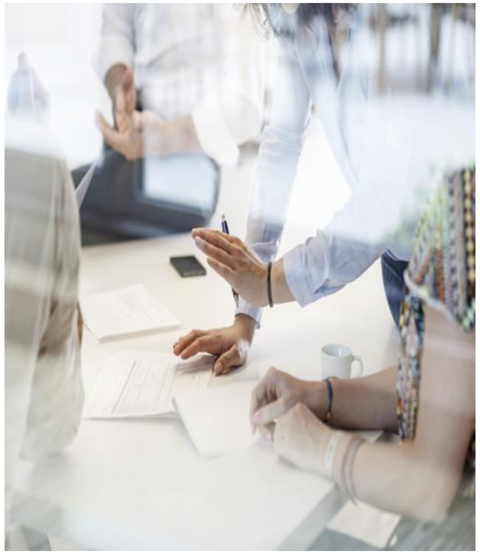
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: 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. No inconsistencies have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters, though note that our work on the objection raised on Selective Licensing is still underway as is our work on the Council’s value for money arrangements.
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. However, we note that work is not required as the Council does not exceed the revised threshold of £2 billion. We will still however be required to submit a return to the National Audit Office on completion of our audit.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2022/23 audit of Leicester City Council in the audit report, as detailed in Appendix H, due to the need to complete work on the objection.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3–5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

3. VFM: our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our auditor's report will make reference to this significant weakness in arrangements, as required by the Code, see Appendix H.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Financial Sustainability Based on the Council's current financial projections the increasing budget gaps will need to be supported by the use of reserves with both managed and general fund working balance reserves will be exhausted by 2025/26. The Council is developing responses but currently there is no clear or robust plan to address this gap and we consider that the Council is therefore having to place an over-reliance on non-recurrent measures to reduce the financial shortfall.	In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary: • Review of Council, Cabinet and committee reports. • Regular meetings with senior officers. • Interviews with other members and management. • Attendance at Audit Committee • Considering the work of internal audit. • Reviewing reports from third parties including Ofsted. • Reviewing the Council's Annual Governance Statement and other publications.	Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022/23.	We have raised a key recommendation: The Council should re-consider all aspects of service delivery in order to ensure financial sustainability with efforts being directed toward: • The identification and delivery of savings that reduce the indicative budget gap in 2024/25 and in future years, along with supporting the replenishment of reserves. These savings should be realistic, evidence-based targets as opposed to unachievable or overly-optimistic. • Reducing reliance on one-off measures to support the revenue budget (including non-recurrent savings, one-off grants and reserves) • Rebuilding the reserves balance to ensure it can be maintained to provide financial security and cushioning in the future Difficult decisions are likely to be required in future budgets. The Council should therefore ensure: • that its financial planning demonstrates and reports a clear understanding of statutory versus discretionary areas of spend, • that those discretionary areas can be managed within the available financial envelope, and • If required, how the reduction or removal of services in its long term plan fits with its organisational strategy and the priorities of stakeholders.

4. 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 and consider that an objective reasonable and informed third party would take the same view. 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 F.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

4. 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 non-audit services were identified, which were charged from the beginning of the financial year to March 2024, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant 2021-22	7,500	Self-Interest (because this is a recurring fee) Self-review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence given the fee for the work in comparison to the total planned audit fee (per our Audit Plan) for the audit of ££175,9 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. We have considered the following and consider the self-review threat to be mitigated: • the materiality of the amounts involved to our opinion • unlikelihood of material errors arising • 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 capital receipts grant 2022-23	10,000		
Certification of Teachers Pension Return 2021-22	7,500		
Certification of Teachers Pension Return 2022-23	10,000		
Certification of Housing Benefit Claim 2021-22	62,000		
Certification of Housing Benefit Claim 2022-23	£32,400 core £1,500/day variable		

4. 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 non-audit services were identified, which were charged from the beginning of the financial year to November 2023, as well as the threats to our independence and safeguards that have been applied to mitigate any threats identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
CFO Insights Subscription	12,500 (per annum for 3 years)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is anticipated to be £12,500 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self-review (because GT provides audit services)	To mitigate against the self-review threat , the work is undertaken by a team independent of the audit team. The audit will consider the accounting treatment of the payments made and this is not part of CFOi service. There is not considered to be a significant self-review threat.

Grant Patterson, the Key Audit Partner and Engagement Lead for the provision of the Council's external audit services is currently serving their 5th year on the engagement.
In line with ethical requirements, to safeguard the threat of familiarity, he will rotate off the audit for the year commencing 31 March 2024 and beyond.

'These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Governance and Audit Committee.

None of the services provided are subject to contingent fees.

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council or investments in the Council held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We are aware of local taxation charges paid by Grant Thornton UK LLP to Leicester City Council as a result of a Grant Thornton UK LLP office being located in Leicester. We do not consider these give rise to a business relationship between Grant Thornton UK LLP and Leicester City Council as the firm has no choice but to pay local taxes and therefore do not consider there to be any independence issues. We have not identified any other business relationships between Grant Thornton and the Council
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council's board, senior management or staff that would exceed the threshold set in the Ethical Standard.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	●	
Confirmation of independence and objectivity	●	●
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	●	●
Significant findings from the audit		●
Significant matters and issue arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit		●
Significant deficiencies in internal control identified during the audit		●
Significant matters arising in connection with related parties		●
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		●
Non-compliance with laws and regulations		●
Unadjusted misstatements and material disclosure omissions		●
Expected modifications to the auditor's report, or emphasis of matter		●

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

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified 6 recommendations 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 2023/24 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
Low	**De minimis policy** In our testing of the Council's debtors balance as well as expenditure testing, we identified that management have not accrued for two sampled invoices due to the de minimis policy of not accruing for any transactions below £1k. We have gained assurance that the invoices raised, and invoices received under £1k received in March to April 2023 would not pose a risk of material misstatement if they were all not accrued for, due to the size of the populations in question. We are therefore satisfied that this provides us with assurance that management's assessment that this policy would not materially impact the accounts is appropriate. However, the last time management formally undertook such an assessment was in 2016/17.	We recommend that this assessment is done on an annual basis to ensure that the conclusion that the accounts would not be materially misstated as a result of this policy, remains the case. **Management response** We agree a regular review is carried out, but disagree that the review is needed on an annual basis, as the estimated size is c£1m.
Medium	**Grants income** In gathering evidence in support of sample testing of schools' grants income, management advised that a double counting error had been identified relating to two of our sample items. In their investigations a third such instance of double counting was identified, such that income from grants is overstated by £1.419m with an offsetting understatement in expenditure. This was also a reported error in our 2018/19 Audit Findings Report.	Albeit several years apart, this is a very specific error to have recurred, and we therefore recommend that the Council revisits its processes in relation to the processing of schools' grants income to ensure that such double counting does not take place in future. **Management response** Agreed – processes will be reviewed.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	**Expenditure and Income Analysed by Nature** This note is informed by a workpaper which is largely automated, but not completely. We identified in our testing this year (and in the prior year) that errors have arisen because of hard coding in this workpaper. This indicates that errors of this nature will continue to recur unless the workings are automated and hard coding removed.	We recommend that this workpaper is fully automated, or subject to more robust quality assurance checks as part of the closedown process, so that such errors are avoided. **Management response** Agreed, a review will be undertaken.
Medium	**Journals process** It is not best practice for senior officers to be posting journals as it has the potential to remove a layer of review, authorisation and approval. We note from the journals data that senior officers have not posted journals, but as reported on page 10, we identified evidence indicating that they have been posting to the ledger by proxy (ie by asking another officer to post something on their behalf, something that they themselves had prepared). Given that the Council has no automated authorisation process, this raises particular concerns, as it means that officers are posting journals prepared for them by more senior officers, who may then be responsible for the retrospective review of said journal. This has the potential to render the retrospective review ineffective and raises a segregation of duty concern, if the reviewer is reviewing their own work.	We recommend that the Council revisit its journals process in respect of this practice and ensure that where officers are posting on behalf of someone else, that those journals are subject to separate review. **Management response** We will review the journal process, and identify if and how a separate review can be added.
Medium	**Schools cash balances** For timing convenience, the Council use balances from February for schools as an estimate for the end of March position in the financial statements. We have compared this to the bank confirmation letter at year end and quantified a misstatement £3.24m.	We recommend that the Council revisit its closedown processes to ensure that the schools' cash balances as at the balance sheet date are appropriately reflected in the financial statements. **Management response** Due to the timescales involved in meeting SoA publication dates, we use an estimated figure for schools' cash balances. We are reviewing our processes to provide further assurance that the difference between estimated and actual balances is not material.
Medium	**Capital Additions - Goods Received Not Invoiced** We have identified four instances in our additions testing of capital accruals being overstated as the goods/services had not been received before 31 March.	We recommend management ensure that capital accruals are reviewed to ensure that they are being based on actual goods/services received. **Management response** Additional training and guidance has been provided for capital project managers, as part of the preparation for 2023/24 closedown. Accruals will also be reviewed by finance staff before posting.

C. Follow up of prior year recommendations

We identified the following issues in the audit of Leicester City Council's 2021/22 financial statements, which resulted in 5 recommendations being reported in our 2021/22 Audit Findings report. We reported interim progress against these in our audit plan, but as work was still underway, we were not in a position to close the recommendations down at that time.

We have followed up on the implementation of our recommendations and note that 2 are still to be completed, the risk in relation to 1 has been accepted by the Council, and 2 have been satisfactorily addressed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓x	**Segregation of duty conflicts within i-Trent and Unit 4** Administrative access to i-Trent (via 'LCITC SYSTEM ADMIN') and Unit 4 (via 'AG-SYSTEM' role) has been granted to users who have the ability to enter financial transactions. The combination of this and the ability to administer end-user security is considered a segregation of duties conflict. We noted that the following individuals had such elevated permissions: i-Trent • 1 user as Corporate Payments Manager' from the 'Payroll' department. • 3 users as 'Operational Pensions and Payment Officer' from the 'Payroll' department 1 user as System support and development officer from the 'Payroll' department. Unit 4 • 'Finance Systems Technician' from the Finance department. • 'Accountant' from the Finance Team. We recommended that: • Management should consider reviewing access rights assigned to all system users to identify and remove conflicting access rights. • Management should adopt a risk-based approach to create and reassess the segregation of duty matrices on a periodic basis. This should consider whether the matrices continue to be appropriate or required updating to reflect changes within the business. • If incompatible business functions are granted to users due to organisational size constraints, management should ensure that there are review procedures in place to monitor activities [e.g. reviewing system reports of detailed transactions; selecting transactions for review of supporting documents; etc.	This finding has been partially remediated. i-Trent We acknowledge that admin access to iTrent via 'LCITC SYSTEM ADMIN' has been remediated with the addition of new security profile and logging of activities of the same. The system administrator can access to these logs and are monitored on monthly basis. We also inspected there were no unjustifiable actions has been taken by Payroll team. Unit 4 We have noted the exception remains same for this year and further that this finding will not be remediated by the Council on the grounds that management believe the user configuration is appropriate to ensure the smooth and effective running of the Council's processes and procedures. Management have therefore accepted this segregation of duties risk, but to mitigate it from an audit perspective, we have designed tests accordingly in our approach to journals testing, as set out on page 9.

Assessment

✓ Action completed

X Not yet addressed

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	**Valuation process of other land and buildings** We recommended in previous years that officers and the valuer ensure that the information used in the valuation process is the most up to date and in line with relevant guidance. We also recommended that the valuer documents robustly and in detail, the rationale behind assumptions applied as the valuations are produced, to ensure that an audit trail is readily available. This was a recommendation rolled forward from 2020/21 and raised again in 2021/22.	We continue to encounter challenges in obtaining robust evidence supporting the Council's valuations of its other land and buildings. Due to personnel changes, our questions could not be answered, and the valuations were therefore revisited by a different valuer. We continue to recommend that rationale behind judgements and assumptions applied is evidenced and documented as the valuations are produced. If this process had been in place in respect of the valuations for the year ended March 2023, it is likely that significant time and effort could have been saved on the part of the audit, finance and valuation teams.
x	**Valuation process of Council dwellings** The Council used the housing price index to uplift house prices using indices at February 22 with an estimate for March 2022. We were satisfied from our analysis that using February indices instead of March does not materially impact the valuation and we are satisfied that the estimate is reasonable. We are aware of the timings needed in order to produce valuations and the valuer at the time did use the most up to date information with an estimate of movement made for March 2022 which wasn't available at that time. We recommended that valuations determined using estimates are revisited when actuals are known, to provide additional assurance that there is no material misstatement.	The analysis was undertaken by the valuer, but it was not reviewed until prompted by the audit team. The subsequent analysis and exercise has resulted to a material amendment to the financial statements. We therefore do not consider this recommendation to be met.
✓	**Annual Governance Statement** We considered the Council's Annual Governance Statement to be 'light' in comparison to other examples we see in the sector. While we have concluded it meets requirements the Council should consider enhancing its narrative for future years to more fully explain its governance arrangements, especially in light of governance failures elsewhere in the public sector.	The Council shared with us its draft Annual Governance Statement prior to publication, and we were satisfied that additional information had been included to address the recommendation made in prior year. We note that the Statement will need to be updated for any relevant issues between the balance sheet date and the date that the accounts are signed.

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	**Terms of Engagement with valuers responsible for valuing Council Dwellings** We noted that, overall, the terms of engagement outlining the scope of works of the portfolio of properties by the Council's valuer is deemed satisfactory as at the valuation date of 31st March 2022 but could be improved in two aspects: • the information to be relied upon by the Valuer is not set out in any detail; and • it is unclear whether any special assumptions will be included. We recommended that these missing aspects are included in the Terms of Engagement in the future.	We have commissioned an auditor's expert to review the work done by the external valuer. They commented that there continues to be no reference to the valuation methodology to be used or the actual nature of the assets to be valued. They noted that the valuer set out the assumptions noting the accuracy of the beacon valuation is a major factor governing the quality o the housing stock valuation, but noted that the valuer did not confirm whether any properties were treated differently, ie whether special assumptions were applied. We therefore do not consider this recommendation to be met. We have raised all questions raised by our expert with the Council's valuers and would expect them to be addressed as a matter of course in the report provided in future years.

D. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	**Comprehensive Income and Expenditure Statement £'000**	**Statement of Financial Position £' 000**	**Impact on total net expenditure £'000**	**Impact on general fund £'000**
Pension We identified that the asset ceiling adjustment was applied to Unfunded schemes which we do not deem to be appropriate. The council has proposed to amend the final accounts so the adjustment covers the LGPS funded scheme only.	36,012	-36,012	36,012	-
Highways depreciation We identified an error in the amount of depreciation charges to highways infrastructure which has arisen due to a hard coded deduction of £2.6m in the depreciation formula for each of the 5 highway infrastructure assets in the register, (ie £12.9m in total), which relates to the prior year and has been included this year in error. This reduction in depreciation has also resulted in a disposal of £1,186k as brought forward depreciation is less than in year additions.	Depreciation -12,921 Loss on disposal 1,186	PPE 12,921 PPE -1,186	-11,735	-
Council Dwellings indexation Revisit valuation to update with actual information in place of estimates. This is a reduction in PP&E net book value and the revaluation reserve.	-	PPE -16,708 Revaluation reserve 16,708	-	-
Debtors and Receipts in Advance Leaseholder service charges for 2023/24 of £2.9m were identified as being held both as a debtor and a receipt in advance (liability). We challenged this treatment on account that monies had not been received and as it related to 2023/24 it should not be a debtor in the 2022/23 financial statements.		2,966 -2,966		-

continued overleaf….

D. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000
Land at Travellers Sites The valuer has recorded a nil value in respect of land at traveller sites which has not been updated in the fixed asset register meaning that the land value is overstated in the accounts. The corresponding entry is a debit impact the CIES.	1,163	-1,163	1,163	-
OLB and Surplus revaluations We identified a number of errors through the course of our substantive testing. This includes: - an adjustment to the obsolescence assumption for DRC buildings - errors identified in the key inputs such as build costs, GIA, and income. - calculation errors.	2,339	PP&E -10,781 Revaluation reserve 8,443	2,339	-
Overall impact	£27,779k	£27,779k	£27,779k	£0

D. 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/issue/Omission	Auditor recommendations	Adjusted?
Note 15 – valuation timings note We have identified a misstatement in the valuation timings note due to the inclusion of the gross book value of highways infrastructure. This inclusion renders the note inconsistent with the PP&E note, as management has opted not to include Highways Infrastructure therein.	**Management response** This has been adjusted.	Yes
Note 14 – Expenditure and Income analysed by nature We identified during mapping of the expenditure by nature note to supporting documentation that items had been misclassified between categories as follows: • An amount of £4.428m in other service expenses is better classified under depreciation, amortisation, impairment. • Similarly, an amount of £24m in fees and charges is better classified under Government grants and contributions. For 2021/22 it is proposed that the comparators are similarly updated so that the year-on-year balances are like for like.: • An amount of £294k in other service expenses is better classified under depreciation, amortisation, impairment. • Similarly, an amount of £17m in fees and charges is better classified under Government grants and contributions.	**Management response** This has been adjusted.	Yes
Note 18 – Financial Instruments Additional narrative added clarifying some lines within the balance sheet contain financial instruments as well as non-financial instruments. • Trade receivables and debtors figure have increased from £32,039k to £45,385k. • PFI and arrangements within short term creditors has been increased by £1,410k in respect of the prior year (not material so we are satisfied no prior period adjustment is required). The equivalent figure for the current year has increased by £912k.	**Management response** This note has been reworked in the final Statement of Accounts for clarity	Yes

continued overleaf…

D. 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/issue/Omission	Auditor recommendations	Adjusted?
Note 15 A capital project was revalued to nil through a downwards revaluation, when it should not have been. The assets to which the expenditure relates have been revalued in year therefore there is no impact on the PPE net book value, and this is a classification adjustment of £889k between revaluation charged to the CIES and revaluation reserve.	Management response This has been adjusted.	Yes
Note 15 When an asset's valuation decreases year on year, Code requirements are for any amounts pertaining to that asset in the revaluation reserve to be taken account out first and if that balance is extinguished to then take differences to the CIES. We identified a number of assets in the fixed asset register where this approach had not been applied. The impact is that charges to the revaluation reserve are understated by £1.037m, and charges to the CIES are overstated by the same amount. This is a classification misstatement within the PPE note.	Management response This has been adjusted.	Yes
Note 15 An asset which has been depreciated by £1.025m should have been treated as a downwards revaluation. This is a classification misstatement within the PPE note.	Management response This has been adjusted.	Yes
Note 20 £3.8m of Integrated Commissioning Board (ICB) debtors incorrectly recorded under 'Other Entities and Individuals' as opposed to 'NHS bodies'	Management response This has been adjusted.	Yes
Note 34 – External Audit Costs The fees do not reconcile with those proposed in our audit plan or reported in this report. A reconciliation is provided on page 54.	Management response The note does not reconcile to the numbers in this report as it contains elements relating to work carried out in 2022/23 in relation to 2021/22 which is reflected in the 2021/22 statement of accounts, and work for 2022/23 which will be carried out in 2023/24 and therefore be reflected in the statement of accounts for 2023/24.	No
Note 35 – Revenue Grant Income In gathering evidence in support of sample testing of grants income, double counting errors were identified, such that income from grants is overstated by £1.419m with an offsetting understatement in expenditure	Management response Not adjusted as not material, however processes have been reviewed for 2023/24 closedown.	No

continued overleaf….

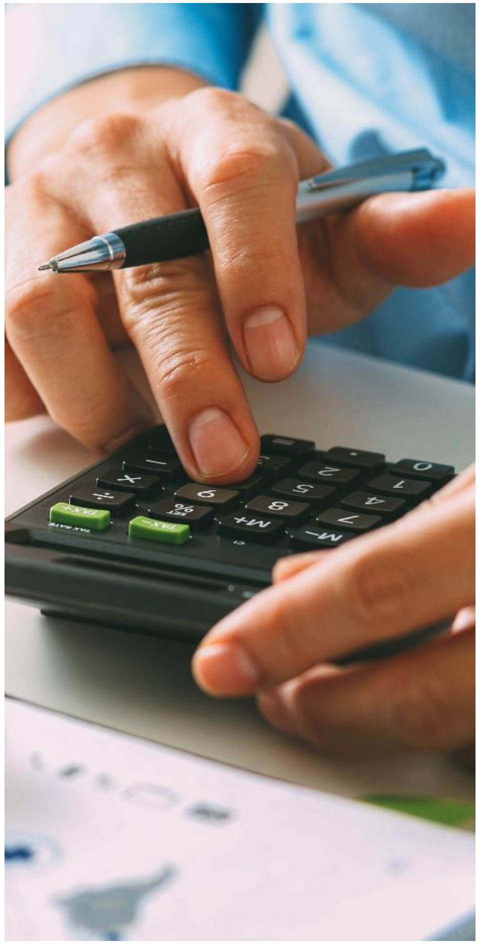
D. Audit Adjustments

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/issue/Omission	Auditor recommendations	Adjusted?
Note 39 - Page 114 opening balance of £43.611k for Judgemeadow whereas prior year's closing shows £40,060k. Page 115 BSF2 shows opening balance of £80,140k, but closing balance was £74,365k in prior year. This represents an adjustment to a prior period value in the account and it is to update for valuations revised in the 21/22 audit. This is not material therefore there is no reason for management to adjust the prior year figures in the disclosure.	Management response This was an error in the 21/22 accounts, superseded by later valuations / calculations for 2022/23 year-end balances. The impact is not material.	Yes
Note 42 - Defined benefit schemes The Pension fund auditor has informed us that the actuary used an estimated rate of return to calculate the Pension fund's assets. They have evaluated the impact as an overstatement of £4,877k for the Council's assets. Due to the asset ceiling adjustment, this adjustment does not impact the primary statements and is instead a classification adjustment within Note 42.	Management response Not adjusted as not material and (due to pension accounting rules) has no impact on our core statements.	No
Note 42 - Defined benefit schemes The Pension fund auditor has informed us that when comparing the asset listing to confirmations, they identified a £7,574k misstatement. Apportioning this for the Council's proportion of assets indicates that assets have been understated £2,237k. Due to the asset ceiling adjustment, this adjustment does not impact the primary statements and is instead a classification adjustment within Note 42.	Management response Not adjusted as not material and (due to pension accounting rules) has no impact on our core statements.	No
Note 42 – Defined benefit schemes The draft accounts were based on the actuary report dated 26/04/23. The revised report was received on the 09/06/23 which was too late for the draft accounts publication. The Council has proposed to adjust the totals to reflect the revised report in the final accounts. Due to the asset ceiling adjustment, this adjustment does not impact the primary statements and is instead a classification adjustment within Note 42.	Management response Draft accounts were based on the latest information available at the time. Due to the timescales of the actuarial valuation and the draft accounts publication this is likely to recur in future years,	Yes
Note 42 – Defined benefit schemes The disclosure pertaining to the asset ceiling adjustment will be amended to exclude unfunded schemes. A corresponding commentary will be added to Note 5 – Estimation Uncertainty to explain the asset ceiling adjustment that has been applied in accordance with IFRIC 14.	Management response Note 5 has been amended for clarity.	Yes

D. Audit Adjustments (continued)



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Governance and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Fees, charges and other service income In our initial testing we identified an invoice for £6.6k which related to 2021/22 but had been recognised as income in 2022/23. When projected across the population this leads to an extrapolated uncertainty of £3.087m. This means that if we assume that this error is representative of the population, when it is projected, there is a risk that fees, charges and other service income is overstated by £3.087m.	3,087	-3,087	3,087	3,087	Not considered to be material and is a projected misstatement
continued overleaf….					

D. Audit Adjustments (continued)

Impact of unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
PPE revaluations Extrapolation due to errors identified in a sample of assets with year-on-year movements in line with expectations. If we assume the error rate to be indicative of the population as a whole this would suggest that the value of existing use value assets is understated, with a notional corresponding increase to the revaluation reserve.		PPE 1,310 Revaluation reserve -1,310			Not considered to be material and is a projected misstatement
PPE additions Extrapolation due to incorrectly marking goods as receipted though they had not been. The impact is an overstatement of PPE, and an overstatement of Creditors.		PPE -3,534 Creditors 3,534			Not considered to be material and is a projected misstatement
Schools' cash balances Overstatement of cash balances as February balances were not updated to reflect March balances.	3,240	-3,240	3,240	£3,240k	Not considered to be material
Overall impact	**£6,327k**	**-£6,327k**	**£6,327k**	£6,327k	

D. Audit Adjustments (continued)

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements. We are satisfied that these adjustments are still not required as they are not material in respect of 2022/23 and their impact has been superseded through revised valuations and that the cumulative impact on the CIES is not material.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Ashton Green: the valuer has overstated this asset by value by £1,500k by failing to take into account a land sale which had impacted the site area, on which the asset was valued. The accounts have not been amended for this error.	1,500	-1,500	1,500	-	Not material
Forest Lodge Education Centre: A formula error within a spreadsheet has led to an overstatement of this asset of £1,371k. The valuation spreadsheet has been checked by the Council's capital accountant for any similar errors and this was concluded to be an isolated instance. The financial statements have not been amended for this error.	1,371	-1,371	1,371	-	Not material
Overall impact	£2,871	-£2,871	£2,871	-	

E. Fees and non-audit services

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

Audit fees	**Proposed fee**	**Final fee**
Scale fee published by PSAA for 2022/23 (This includes 'baked-in' increases from previous years which continue to apply for future years in relation to: • £4,375 pension valuations • £5,438 for PPE valuations • £6,250 for additional FRC challenge	128,947	128,947
Reduced materiality	3,750	3,750
ISA 540	6,000	6,000
Enhanced journals testing	3,000	3,000
Increased audit requirements for ongoing raising on quality standards - FRC	1,500	1,500
Infrastructure	2,500	2,500
Appointment of auditor's expert in respect of PP&E valuations	5,000	5,000
Enhanced audit procedures for Payroll – Change of circumstances	500	500
Enhanced audit procedures for Collection Fund - reliefs testing	750	750
Increased audit requirements of revised ISAs 315	5,000	5,000
Additional work on Value for Money (VfM) under new NAO Code	20,000	20,000
Total fees per Audit Plan	**176,947**	**176,947**
Proposed additional fees due to extended testing in the areas of: Valuation of Council Dwellings; Grants; Debtors; Additions; Expenditure completeness; FTE data; Journals*	13,000*	TBC*
Total audit fees (excluding VAT)	**£189,947**	**£TBC**

* We have estimated a potential fee variation at this time, due to additional work performed and time incurred on the Council's valuation of other land and buildings, given the issues we have encountered in securing appropriate audit evidence. It is subject to discussion with management. We will also seek a fee variation in respect of time spent on responding to the objection received.

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

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services eg Grant Claims comprising: - 21-22 housing capital receipts grant which was delivered in 22-23 year - 22-23 housing capital receipts grant which was delivered in 23-24 year - estimate for 22-23 housing benefit work of £62k based on prior year fee - 21-22 teachers pension return delivered in 22/23 year - 22-23 teachers pension return delivered in 23/24 year	97,000	TBC
CFO Insights	12,500	12,500
Total non-audit fees (excluding VAT)	**£109,500**	**£TBC**

The fees payable to Grant Thornton do not reconcile to the financial statements. See below for reconciliation:

Fees per financial statements:
- External Audit - £179k
- Other Services - £84k

Reconciling Items (Audit fees):
- Over-accrual of audit fee 2022/23 based on an estimate - £2k
- Additional audit fee due to extended testing - £13k*

Reconciling Items (Non-audit fees):
- Under-accrual of Housing benefit claims 2022/23 based on an estimate - £8k
- Under-accrual of Teachers Pension 2021/22 based on an estimate - £2k
- Over-accrual of housing capital receipts grant claim 2021/22 based on an estimate - £4k
- 2022-23 housing capital receipts grant delivered in 2023/24 year - £10k
- 2022-23 Teachers Pensions delivered in 2023/24 year - £10k

Total Fees:
- External Audit - £190k
- Other Services (as above) - £110k

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the Council, its executive and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

* We have estimated a potential fee variation at this time, due to additional work performed and time incurred on the Council's valuation of other land and buildings, given the issues we have encountered in securing appropriate audit evidence. It is subject to discussion with management. We will also seek a fee variation in respect of time spent on responding to the objection received.

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Management Letter of Representation

Leicester City Council
Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of Leicester City Council for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the Council financial statements give a true and fair view in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of property, plant and equipment and the valuation of the net pension liability We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the financial statements:

  a. there are no unrecorded liabilities, actual or contingent

  b. none of the assets of the Council has been assigned, pledged or mortgaged

G. Management Letter of Representation

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council’s financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial, both quantitively and qualitatively, to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment. We continue to believe that the Council’s financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

   a. the nature of the Council means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

   b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

   c. the Council’s system of internal control has not identified any events or conditions relevant to going concern.

   d. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

xv. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

xvi. The Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council’s financial statements in the event of non-compliance.

xvii. We have considered whether the Council is required to reflect a liability in respect of equal pay claim within its financial statements. We confirm that we are satisfied that no liability needs to be recognised on the grounds that the Council applies the Greater London Provincial Council job evaluation scheme and there are no liabilities to recognise in respect of task and finish practices.

G. Management Letter of Representation

The Council’s process has been subject to recent audit, which concluded that the JE scheme used “should provide reliable and consistent job evaluation results”.

xviii. We have considered whether the Council is required to reflect the impact of any buildings identified to have reinforced autoclaved aerated concrete (RAAC). We confirm that we are satisfied that the impact of RAAC-related issues on the Council’s estate is not material.

xix. The prior period adjustments disclosed in Note 14 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

Information Provided

xviii. We have provided you with:

   a. access to all information of which we are aware that is relevant to the preparation of the Council’s financial statements such as records, documentation and other matters;

   b. additional information that you have requested from us for the purpose of your audit; and

   c. access to persons within the Council via remote arrangements from whom you determined it necessary to obtain audit evidence.

xix. We have communicated to you all deficiencies in internal control of which management is aware.

xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xviii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

   a. management;

   b. employees who have significant roles in internal control; or

   c. others where the fraud could have a material effect on the financial statements.

xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiv. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

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

Narrative Report

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

H. Audit opinion

Our audit opinion is included below.

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements of Leicester City Council (the 'Authority') for the year ended 31 March 2023, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2023 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Finance and Section 151 Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Director of Finance and Section 151 Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public

H. Audit opinion

sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Director of Finance and Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance and Section 151 Officer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts , other than the financial statements and our auditor's report thereon . The Director of Finance and Section 151 Officer's is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

H. Audit opinion

- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority and the Director of Finance and Section 151 Officer

As explained more fully in the Statement of Responsibilities set out on pages 12 and 13, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Section 151 Officer. The Director of Finance and Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance and Section 151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance and Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority without the transfer of its services to another public sector entity

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015,the Local Government Act 2003) , the Local Government Act 1972, the Local Government and Housing Act 1989, and the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992 and the Local Government Finance Act 2012)

We enquired of management and the Governance and Audit Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Governance and Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority's financial statements to material misstatement,

H. Audit opinion

including how fraud might occur, by evaluating management’s incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of:

- Potential management bias in determining accounting estimates for the valuation of land and buildings and council dwellings
- Potential management bias in determining accounting estimates for the valuation of the net pension liability including application of IFRIC 14 - IAS 19 - the Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction
- incomplete recognition of year-end non-pay operating expenditure

We determined that the principal risks were in relation to period end journal entries, and those posted on behalf of others. Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a particular focus on segregation of duties conflicts within the IT control environment, and significant journals at the end of the financial year, which impacted on the Authority’s financial performance,
- substantive testing on payments and receipts to ensure appropriate cut-off had been applied, and therefore that income and expenditure had been recognised in the correct period;
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of other land and buildings, and council dwellings

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including the potential for fraud in revenue and expenditure recognition, and significant accounting estimates related to other land and buildings, council dwellings, and the net pension liability.. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector
- understanding of the legal and regulatory requirements specific to the Authority including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA/LASAAC and SOLACE
    - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority’s operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

H. Audit opinion

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

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

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have nothing to report in respect of the above matter except on 18 April 2024 we identified:

- a significant weakness in how the Authority plans and manages its resources to ensure it can continue to deliver its services. This was in relation to the Authority's increasing budget gaps that will need to be supported by the use of reserves, and the forecast that both managed and general fund working balance reserves will be exhausted by 2025/26. We recommend that the Authority re-consider all aspects of service delivery in order to ensure financial sustainability, with efforts being directed toward:

- The identification and delivery of savings that reduce the indicative budget gap in 2024/25 and in future years, along with supporting the replenishment of reserves. These savings should be realistic, evidence-based targets as opposed to unachievable or overly-optimistic.

- Reducing reliance on one-off measures to support the revenue budget (including non-recurrent savings, one-off grants and reserves)

- Rebuilding the reserves balance to ensure it can be maintained to provide financial security and cushioning in the future.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

H. Audit opinion

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

We cannot formally conclude the audit and issue an audit certificate for Leicester City Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our consideration of an objection brought to our attention by a local authority elector under section 27 of the Local Audit and Accountability Act 2014.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2023.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

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