Grant Thornton

# Audit Findings (ISA 260) Report for Leicester City Council

Year ended 31 March 2025

17 February 2026

Leicester City Council
115 Charles Street
Leicester
LE1 1FZ

Grant Thornton UK LLP
17th floor
103 Colmore Row
Birmingham
B3 3AG
www.grantthornton.co.uk

17 February 2025

Dear Members of the Governance and Audit Committee

## Audit Findings for Leicester City Council for the 31 March 2025

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 and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents 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), 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.

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

We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to manage risk, quality and internal control particularly through our Quality Management Approach. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at transparency-report-2024-.pdf (grantthornton.co.uk).

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

Avtar Sohal

Director
For Grant Thornton UK LLP

# Contents

# Headlines and status of the audit

# Headlines

This page and the following summarises the key findings and other matters arising from the statutory audit of Leicester City Council (the 'Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2025 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 Authority's financial statements give a true and fair view of the financial position of the Authority 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), Narrative Report, is materially consistent with the financial statements and with our knowledge obtained during the audit, or otherwise whether this information appears to be materially misstated.

Our audit work was completed during June 2025-January 2026. Our findings are summarised on pages 36 to 50. We have identified nine adjustments to the financial statements that have resulted in adjustments to the Authority's Comprehensive Income and Expenditure Statement. These adjustments result in a reduction of £10m in the level of the Authority's usable reserves at 31st March 2025 due to settlement of the Biffa dispute, however the adjustment is effectively moving expenditure between financial years.

We have identified two material prior period adjustments. There is no impact on the Authority's usable reserves. Further detail is on page 26.

We have also raised recommendations for management as a result of our audit work. These are set out at page 51 to 53. Our follow up of recommendations from the prior year's audit are detailed at page 54 to 59.

We have experienced delays to the completion of the audit due to the Council's draft accounts not accounting for the implementation of IFRS 16, which came into effect 1 April 2024. We received the workings papers in January 2026, ahead of the audit backstop deadline on 27 February 2026. This has required additional resource to be allocated to the audit, later than initially planned, and has therefore resulted in a fee variation, reported on page 64. The identification of a number of errors in our testing, has led to additional work in the areas of creditors, expenditure completeness, income completeness, PPE valuations and school cash. This has resulted in a fee variation, reported on page 64.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion subject to the following outstanding matters by the backstop date of 27 February 2026:

- review management's assessment for the impact of IFRS16 on the financial statements, including PFI liabilities
- receipt and review of the Council's responses to our queries on financial instruments
- receipt of management representation letter; and
- review of the final set of financial statements

We have concluded that the other information to be published with the financial statements, including the Annual Governance Statement, is consistent with our knowledge of your organisation and with the financial statements we have audited.

Our anticipated financial statements audit report opinion will be unqualified including a significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We anticipate signing your accounts following the Governance and Audit committee on 17 February 2026.

# 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 Authority 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 Authority'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 Authority'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 significant weaknesses in the Authority's arrangements and so are not satisfied that the Authority 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 (page 60).

# Headlines

## National context – audit backlog

### Government proposals around the backstop

On 30 September 2024, the Accounts and Audit (Amendment) Regulations 2024 came into force. This legislation introduced a series of backstop dates for local authority audits. These Regulations required audited financial statements to be published by the following dates:

- For years ended 31 March 2025 by 27 February 2026
- For years ended 31 March 2026 by 31 January 2027
- For years ended 31 March 2027 by 30 November 2027

The statutory instrument is supported by the National Audit Office's (NAO) new Code of Audit Practice 2024. The backstop dates were introduced with the purpose of clearing the backlog of historic financial statements and enable to the reset of local audit. Where audit work is not complete, this will give rise to a disclaimer of opinion. This means the auditor has not been able to form an opinion on the financial statements.

## Significant matters

We have experienced delays to the completion of the audit due to the Council's draft accounts not accounting for the implementation of IFRS 16, which came into effect 1 April 2024. We have also identified a number of errors in our testing that have resulted in additional work to gain appropriate assurance. As a result of these delays, as well as to reflect time spent on additional testing to gain appropriate assurance following errors identified in our  testing, we will be raising a fee variation. This is set out in further detail at Appendix E.

With statutory reporting deadlines due to come forward significantly over the coming years, it will become increasingly critical for the Council to strengthen the accounts preparation process, reduce the level of errors presented for audit, and ensure that sufficient resources are available to support delivery of the audit within agreed timescales. As highlighted above, the backstop deadline for the 2026/27 audit year is 30 November 2027. Based on our current assessment, there is a risk that the Council will be unable to deliver a complete and auditable set of financial statements by this deadline unless timely and sustained improvements are made to address the recommendations set out in our Audit Findings Report and to enhance the overall quality of the accounts.

# Headlines

## Statutory duties

The Local Audit and Accountability Act 2014 (the 'Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have completed the majority of work required under the Code.

However we cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014, and the Code of Audit Practice, until confirmation has not been received from the NAO that the group audit (Whole of Government Accounts) has been certified by the C&AG, and therefore no further work is required to be undertaken in order to discharge the auditor's duties in relation to consolidation returns under paragraph 2.11 of the Code.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2025.

# Headlines

## Implementation of IFRS 16

Implementation of IFRS 16 Leases became effective for local government bodies from 1 April 2024. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Local government accounts webinars were provided for our local government audit entities during March, covering the accounting requirements of IFRS 16. Additionally, CIPFA has published specific guidance for local authority practitioners to support the transition and implementation on IFRS 16.

### Introduction

IFRS 16 updates the definition of a lease to:

- "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration."

In the public sector the definition of a lease is expanded to include arrangements with nil consideration. This means that arrangements for the use of assets for little or no consideration (sometimes referred to as peppercorn rentals) are now included within the definition of a lease.

IFRS 16 requires the right of use asset and lease liability to be recognised on the balance sheet by the lessee, except where:

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

This is a change from the previous requirements under IAS 17 where operating leases were charged to expenditure.

The principles of IFRS 16 also apply to the accounting for PFI liabilities.

The changes for lessor accounting are less significant, with leases still categorised as operating or finance leases, but some changes when an authority is an intermediate lessor, or where assets are leased out for little or no consideration.

### Impact on the Authority

The Council did not complete an assessment for the transition to IFRS16 for the publication of the draft financial statements.

We received the workings papers in January 2026, which showed an increase in lease liabilities and Right of use assets of approximately £2 million. This is below our audit materiality threshold and therefore considered immaterial to the reader's understanding of the financial statements.

We are performing specific audit procedures to ensure the completeness of recorded assets. This included reviewing the processes and systems used by the Council to capture and maintain lease data. We have also addressed the risk of understatement by testing a small sample of the associated calculations of the lease liabilities.

Our work on this area is ongoing.

# Materiality

# Our approach to materiality

As communicated in our Audit Plan dated 23 May 2025, we determined materiality at the planning stage as £22.4m based on 1.8% of prior year gross expenditure.

At year-end, we have reconsidered planning materiality based on the draft financial statements. Materiality has been updated to £21.4m because the Council's current year draft gross expenditure had decreased, compared to prior year.

A recap of our approach to determining materiality is set out below.

### Basis for our determination of materiality

- We have determined materiality at £21.4m based on professional judgement in the context of our knowledge of the Authority.
- We have used 1.8% of current year gross expenditure as the basis for determining materiality.
- 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

- We have determined performance materiality at £13.91m, this is based on 65% of headline materiality.

### Specific materiality

- We have set a specific materially of £19.3k on senior officer remuneration, as this disclosure is particularly sensitive and of interest to the reader. This is based on 1.8% to the total senior officer remuneration value of £1.073m in the current period.

### Reporting threshold

- We will report to you all misstatements identified in excess of £1.07m, in addition to any matters considered to be qualitatively material.

# Overview of significant and other risks identified

# Overview of audit risks

The below table summarises the significant and other risks discussed in more detail on the subsequent pages.

Significant risks are defined by ISAs (UK) as an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the degree to which risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement if that misstatement occurs.

Other risks are, in the auditor's judgement, those where the risk of material misstatement is lower than that for a significant risk, but they are nonetheless an area of focus for our audit.

| Risk title | Risk level | Change in risk since Audit Plan | Fraud risk | Level of judgement or estimation uncertainty | Status of work |
|---|---|---|---|---|---|
| Management override of controls | Significant | ↔ | ✓ | Low | ● |
| Valuation of land and buildings, and surplus assets | Significant | ↔ | × | High | ● |
| Valuation of the pension fund net asset / liability | Significant | ↔ | × | High | ● |
| Completeness of operating expenditure and creditors | Other | ↔ | × | Low | ● |
| Completeness, existence and accuracy of cash and cash equivalents | Other | ↔ | × | Low | ● |
| Valuation of Council Dwellings | Other | ↔ | × | Medium | ● |

↑ Assessed risk increase since Audit Plan
↔ Assessed risk consistent with Audit Plan
↓ Assessed risk decrease since Audit Plan

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

# Significant risks

| Risk identified | Audit procedures performed | Key observations |
|---|---|---|
| **Management override of controls**<br><br>Under ISA (UK) 240, there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.<br><br>We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement. | We have:<br>• evaluated the design and implementation of management controls over journals;<br>• analysed the journals listing and determined the criteria for selecting high risk unusual journals;<br>• identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration;<br>• gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. | We reported to you in our audit plan and in prior audits that there continues to be a lack of an established approval process for all journals. 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 have rolled forward our recommendation to management on page 59.<br><br>We have noted no material adjustments or further findings in relation to override of controls.<br><br>We are satisfied that judgements made by management are appropriate and have been determined using consistent methodology.<br><br>Having assessed management's judgements and estimates individually and in aggregate we are satisfied that there is no material misstatement arising from management bias across the financial statements. |

# Significant risks

| Risk identified | Audit procedures performed | Key observations |
|---|---|---|
| **Valuation of land and buildings, and surplus assets**<br><br>The Council is required to revalue its land and buildings on a rolling, five-yearly basis.<br><br>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.<br><br>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. | We have:<br><br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work;<br><br>• evaluated the design and implementation of relevant controls;<br><br>• evaluated the competence, capabilities and objectivity of the valuation expert;<br><br>• written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met;<br><br>• challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding; | We have noted material adjustments and other findings in relation to Valuation of land and buildings, and surplus assets.<br><br><u>Differences between the Valuation report and the Fixed Asset Register</u><br><br>We identified a number of assets which had been valued in year that were inaccurately recorded in the fixed asset register, leading to material misstatements in the draft financial statements. Land and Buildings are overstated by £57.7m, including £49m because Crown Hills Community College is duplicated on the Fixed Asset register. This adjustment is reported on page 38.<br><br>A reconciliation between management's expert's valuation report and the draft financial statements is considered by us to be a relevant control that did not occur in year. We have raised a recommendation that capital accounting is subject to quality checks on page 51.<br><br><u>Valuation of Plant in the Council's Leisure centres</u><br><br>In 2022/23, the valuation methodology for leisure centres was to apportion out the plant (i.e air conditioning units, swimming pool heaters) as a separate asset to the land and buildings. In 2024/25, we selected a leisure centre valuation for testing and identified that the plant element is no longer deemed to be significant enough to require recognition as a separate component, in line with the CIPFA Code (ref 4.1.2.43) requirements on componentisation, and recognition of separate assets. |

Continued overleaf...

# Significant risks

| Risk identified | Audit procedures performed | Key observations |
|---|---|---|
| **Valuation of land and buildings, and surplus assets (continued)**<br><br>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.<br><br>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.<br><br>We therefore have identified that the accuracy of the key inputs and assumptions driving the valuation of land and buildings, and surplus assets, as a significant risk.<br><br>Continued overleaf... | • 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;<br>• tested revaluations made during the year to see if they have been input correctly into the Council's asset register;<br>• 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. | Management did not make the necessary corrections to the fixed asset register to remove the plant assets in 2023/24, when the valuer no longer deemed them be significant enough to warrant componentisation. The impact of this is that Vehicles, Plant, Furniture & Equipment (VPFE) is overstated by £19.075m in 2024/25. Also, VPFE is overstated by £22.890m in 2023/24, which is material and requires a prior period adjustment in line with IAS8. We have highlighted this as a significant matter on page 26.<br><br>This has been reported as an adjusted misstatement on page 38. We have also reported that management should include an accounting policy for their approach to componentisation. This is reported as a disclosure misstatement on page 42.<br><br><u>Indexation</u><br><br>As per the Code, management should ensure that the carrying value of non-current assets are not materially different to the current value at the balance sheet date. To mitigate this risk, they engaged the valuer to perform a desktop valuation of assets not subject to full revaluation in year.<br><br>The valuer applied national capital growth indices for Existing Use Value (EUV) assets across the Office, Industrial, Retail, and Other sectors. We challenged the valuer whether the regionally specific data for the East Midlands, sourced from the same published indices is a more appropriate basis. The valuer agreed that it was appropriate to apply the regional data, and the impact is PPE assets have been overstated by £2.116 million. This is been reported as an adjusted misstatement on page 38. |

# Significant risks

| Risk identified | Key observations |
|---|---|
| Valuation of land and buildings, and surplus assets (continued) | <u>Ashton Green valuation</u><br><br>We identified that phase D and E in the Ashton Green land asset should be classified as Assets Held for Sale given that it was actively marketed for sale before, and at, 31st March 2025. The Code requires that non-current assets classified as held for sale are to be measured at the lower of its carrying value and fair value less costs to sell at initial reclassification. Given the carrying value of £12.75m is lower than the fair value of £26.74m, the impact of this is that PPE is overstated by £26.74m, and Assets Held for Sale are understated by £12.75m.<br><br><u>Assets subject to detailed testing</u><br><br>- The Council have revalued Hospital Close, an AUC asset that is not ready for use, earmarked for Council Dwellings development. As per the CIPFA Code (ref 4.1.2.30), AUC assets are to be held at historic cost and therefore it is inappropriate to apply a current value revaluation to this asset. The impact is PPE is understated by £3.2m and is reported on page 38.<br><br>- We identified a number of errors through our detailed testing such as incorrect yields, rental income, land value, land site area see page 37,38 and 39 for further details. |

# Significant risks

| Risk identified | Audit procedures performed | Key observations |
|---|---|---|
| **Valuation of net pension liability/asset**<br>The Council's pension fund net liability (unfunded scheme) and surplus (funded scheme), as reflected in its balance sheet represents a significant estimate in the financial statements due to the and the sensitivity of the estimate to changes in key assumptions.<br>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). | We have:<br>• 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 evaluated the design and implementation of relevant controls;<br>• evaluated the instructions issued by management to their management experts (the actuary) for this estimate, and the scope of the actuary's work;<br>• assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation;<br>• assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liabilities;<br>• 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; | We evaluated the design and implementation of relevant controls and noted that management did not undertake a review of the actuary's assumptions used in the IAS19 report before publishing the draft accounts. Therefore, we have raised a recommendation on page 53 that management should ensure that the assumptions used by the actuary are reviewed in a timely manner, to mitigate the risk that assumptions and methods are inappropriate.<br>We identified that Note 42 does not agree to the actuary report provided in June 2025. Management based the accounts on a previous version of the actuary report issued in April 2025, which had been superseded. This has been reported as a disclosure misstatement on page 47.<br>In June 2023, the High Court handed down a decision in the case of Virgin Media Limited v NTL Pension Trustees II Limited and others relating to the validity of certain historical pension changes. While there is consideration of the position across the LGPS it is expected that employers include proportionate narrative disclosures in the notes to the accounts, given the estimated impact is uncertain. This has been reported as a disclosure misstatement on page 47. |

Continued overleaf...

# Significant risks

| Risk identified | Audit procedures performed | Key observations |
|---|---|---|
| Valuation of net pension liability/asset (continued)<br><br>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.<br><br>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. Also the Authority has had to consider the potential impact of 'IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset'.<br><br>With regard to these assumptions, we have therefore identified valuation of the Council's pension fund net asset / liability as a significant risk. | • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report;<br>• considered how the Council has applied the requirements of IFRIC14 in its accounting treatment of the net pension asset;<br>• obtained 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 auditor of Leicestershire Pension Fund communicated the following findings with regards to Leicester City Council:<br>• an understatement of the benefits paid figure used by the actuary of £9.3m, which has a net nil impact on the net asset/liability calculation, because gross assets and gross liabilities are both reduced by this amount.<br>• an understatement of the Council's assets by £2.3m, by comparing the data submitted by the Pension Fund to the actuary, to the Pension fund financial statements published at a later date.<br>• an overstatement of the Council's assets by £1.6m, by comparing the Fund's investment asset listing to audit evidence.<br><br>These have been raised as disclosure misstatements on page 48. Due the asset ceiling adjustment which ensures there is a net nil asset for the Local Government Pension funded scheme, there is no impact on the balance sheet.<br><br>Our audit work has not identified any material issues in respect of the valuation of net pension liability. |

# Other risks

| Risk identified | Audit procedures performed | Key observations |
|---|---|---|
| Completeness of operating expenditure and creditors<br><br>Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses.<br><br>Management uses judgement to estimate accruals of un-invoiced costs. During the course of the five 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.<br><br>We therefore identified completeness of non-pay operating expenditure and creditors as a risk requiring particular audit attention. | We have:<br><br>• evaluated the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness<br>• gained an understanding of the Council's processes and control activities for accounting for non-pay expenditure<br>• tested a sample of balances included within trade and other payables<br>• tested a judgemental selection of payments immediately after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period.<br>• tested a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period. | We judgementally selected the payments made by the Council after the year end for testing that were deemed to have the highest inherent risk of misstatement. We identified one payment for maintenance services, which related to 2024/25, that had not been accrued for.<br><br>We conducted further testing on the population aligned with the risk on which this payment was selected (payments made to suppliers in May, that were not paid in April) and identified one further invoice from the same supplier which was not accrued for. We did not identify any further instances of expenditure being understated, and based on our testing, conclude that the risk of misstatement is related to the invoices from this specific supplier.<br><br>The impact is immaterial and therefore no adjustments have been made. Overall, we have concluded that there is not a material misstatement in Completeness of operating expenditure and creditors.<br><br>Therefore, we have rolled forward our recommendation made in the prior year, on page 54, that the Council implement a process to ensure that goods or services that have been provided are routinely identified in a timely manner, to ensure the financial statements are complete. |

# Other risks

| Risk identified | Audit procedures performed | Key observations |
| --- | --- | --- |
| **Completeness, existence and accuracy of cash and cash equivalents**<br><br>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.<br><br>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 have:<br><br>• agreed all period end bank balances to the general ledger and cash book;<br>• agreed cash and cash equivalents to the bank reconciliation;<br>• agreed all material reconciling items and a judgemental selection of other items to sufficient and appropriate corroborative audit evidence;<br>• obtained the bank reconciliation for the following month end and review the reconciling items against those included on the period end bank reconciliation;<br>• written to the bank and obtained a bank balance confirmation;<br>• agreed the aggregate cash balance to the relevant financial statement disclosures. | We tested school balances that feed into the disclosed cash and cash equivalent balance to ensure that they are accurate and exist. 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 in the financial statements to the bank confirmations we received independently from the banks.<br><br>We identified a total variance of £3.578m between the bank confirmation and the value per the financial statements, with the cash balance in the financial statements being overstated. This is included on page 49 as an unadjusted misstatement.<br><br>Since 2022/23 we have recommended that management revisit the closedown process to ensure that the 31 March cash balances are recorded in the accounts. This has not been appropriately addressed. This is included in page 59.<br><br>We identified receipts recognised in the ledger, not matched to income in the bank account, that were not resolved in a timely basis as part of the bank reconciliation process. We also identified uncleared cheques that had not cleared since 2022. This represents a deficiency that the bank reconciliation process is not designed effectively. As part of the bank reconciliation, reconciling items should be reviewed to confirm if they are genuine reconciling items and cleared on a timely basis. This is reported as a deficiency in page 53.<br><br>We have concluded our work in this area and have no further findings to report. We are satisfied from the work completed the Existence, accuracy and completeness of Cash and cash equivalents is free from material misstatement. |

# Other risks

| Risk identified | Audit procedures performed | Key observations |
| --- | --- | --- |
| **Valuation of Council Dwellings**<br><br>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.<br><br>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.<br><br>The key inputs into the valuation are the social housing factor, consideration of market movements and the determination of the beacons.<br><br>Beacons not subject to full revaluation in year are revalued on a desktop basis using an index.<br><br>We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings as a as a risk requiring special audit consideration. | We have:<br><br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work<br><br>• evaluated the competence, capabilities and objectivity of the valuation expert<br><br>• written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met<br><br>• challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding<br><br>• 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<br><br>• tested revaluations made during the year to see if they had been input correctly into the Council's asset register<br><br>• 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. | We have reviewed the indices applied to beacons valued on a desktop basis against appropriate market data obtained by the audit team independently. This identified a difference of £2.1m to the indexation movement applied by the valuer, which we have assessed to be an immaterial level of estimation uncertainty, based on timing differences in obtaining the market data. We are satisfied that the method to index used by the valuer is appropriate.<br><br>We have concluded our work in this area and have no findings to report. We are satisfied from the work completed the valuation of Council Dwellings is free from material misstatement. |

# Other findings

# Other findings – significant matters

| Issue | Commentary | |
|---|---|---|
| Prior year adjustments identified | Through the course of our audit procedures, we identified two errors in the testing of current year balances, that have resulted in material prior year adjustments:<br><br>1.) In 2022/23, the valuation methodology for leisure centres was to apportion out the plant (i.e air conditioning units, swimming pool heaters) as a separate asset to the land and buildings. In 2024/25, we selected a leisure centre valuation for testing and identified that the plant element is no longer deemed to be significant enough to require recognition as a separate component, in line with the CIPFA Code (ref 4.1.2.43) requirements on componentisation, and recognition of separate assets. Management did not make the necessary corrections to the fixed asset register to remove the plant assets of £22.89m in 2023/24 from the Balance sheet, meaning long term assets (PPE) are overstated by this amount at 31st March 2024.<br><br>2.) In the testing of Revenue Grants, we identified that the Social Services Support Grant of £28.101m has been misclassified in the 2023/24 prior year comparators in the CIES. Given that the Social Care Grant is ringfenced for adult and children's social care, it should have been treated as a specific grant credited to services, rather than as an un-ringfenced grant. As this is a classification adjustment, this has no impact on the Grant income total reported in the CIES. | **Auditor view**<br><br>These issues are material and require a prior period adjustment in line with IAS8, and the CIPFA code disclosure requirements (ref 3.3.4.5)<br><br>**Management response**<br><br>**Both areas adjusted as recommended, and improvement processes in place for 25/26 to ensure further clarification and correct accounting** |

# Other findings – key judgements and estimates

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

| Key judgement or estimate | Summary of management's approach | Auditor commentary | Assessment |
|---|---|---|---|
| Valuation of land and buildings, and surplus assets<br>£1,328m at 31 March 2025 (draft accounts) | Other land and buildings comprises of specialised assets such as schools and libraries (approx. 78%), 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 (approx. 22%) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.<br>Surplus assets are required to be valued at Fair Value at year end.<br>The Authority has engaged it's internal valuation team to complete the valuation of properties as at 31st March 2025 on a rolling basis. The remaining assets are subject to a desktop valuation, whereby the valuer applies an index to mitigate the risk of materially differences between the carrying values and current values.<br>The total year end valuation of land and buildings, and surplus assets (disclosed in the draft accounts) was £1,328m, a net increase of £233m from 2023/24 (£1,095m). | 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 challenges of management and their expert.<br>We have considered the movements in the valuations of individual assets and their consistency with relevant market indices.<br>We have considered the completeness and accuracy of the underlying information used to determine the estate.<br>We have challenged the appropriateness of the indices used in the desktop valuation, and assumptions used by the Council's valuer in our detailed testing.<br>The findings of the work above are set out on pages 17-19.<br>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 quality control processes in this area.<br>We have challenged management that the disclosure of estimation uncertainty, in Note 5, does not meet the requirements of IAS1. The narrative on PPE and Fair Value Measurements should include details on the inputs to the valuations which result in a level of material uncertainty. This is reported as a disclosure misstatement in page 43. | We consider the estimate is unlikely to be materially misstated and assumptions are neither optimistic or cautious. |

# Other findings – key judgements and estimates

| Key judgement or estimate | Summary of management's approach | Auditor commentary | Assessment |
| --- | --- | --- | --- |
| Valuation of council dwellings<br><br>£1,246m at 31 March 2025 | The Council owns 19,337 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.<br><br>20% of the housing stock is subject to a full revaluation each financial year. The remaining 80% is indexed under a desktop valuation methodology.<br><br>The Council has engaged Wilks Head and Eve LLP to complete the valuation of these properties. The year end valuation of Council Housing was £1,246m, a net increase of £29m from 2023/24 (£1,217m). | We have reviewed the indices applied against appropriate market data obtained by the audit team independently. This identified a difference of £2.1m to the indexation movement applied by the valuer, which we have assessed to be an immaterial level of estimation uncertainty, based on timing differences in obtaining the market data. We are satisfied that the method to index used by the valuer is appropriate.<br><br>We have gained assurance over the completeness and accuracy of the underlying information used to determine the estimate. We have done this by testing a selection of non-beacon assets to ensure they are accurate recorded in the listing, and the most appropriate beacon/archetype has been applied. We have also reconciled the closing number of properties to the prior year audited value, and substantively tested disposals of Dwellings in year.<br><br>We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. | We consider the estimate is unlikely to be materially misstated and assumptions are neither optimistic or cautious. |

# Other findings – key judgements and estimates

| Key judgement or estimate | Summary of management's approach | Auditor commentary | Assessment |
|---|---|---|---|
| Valuation of net pension liability funded scheme - £0m at 31 March 2025<br><br>Unfunded scheme - £30.2m at 31 March 2025<br><br>IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the Balance Sheet as an asset and whether any additional liabilities are required in respect of onerous funding commitments.<br><br>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. | The Authority's total net pension liability at 31 March 2025 is £30.2m (PY £34.4m) comprising the Leicestershire Local Government and unfunded defined benefit pension scheme obligations.<br><br>The Authority uses Hymans Robertson to provide actuarial valuations of the Authority's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.<br><br>The latest full actuarial valuation was completed in 2022. Given the significant value of the gross pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £18m net actuarial loss during 2024/25, after taking into account the asset ceiling adjustment. | • We have no concerns over the competence, capabilities and objectivity of the actuary used by the group.<br>• No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.<br>• We have reviewed management's assumptions around the decision to limit the surplus recognised on the balance sheet, and we are satisfied the treatment is in line with IFRIC 14 and CIPFA Bulletin 15.<br>• 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 Pension Fund valuation as it applies to Leicester City Council. | We consider the estimate is unlikely to be materially misstated and assumptions are neither optimistic or cautious. |

| Assumption | Actuary value | PwC range/conclusion | Assessment |
|---|---|---|---|
| Discount rate | 5.8% | 5.8% - 5.85% | Reasonable |
| Pension increase rate | 2.75% | 2.7% - 2.8% | Reasonable |
| Salary growth | 3.25% | 2.75% - 3.75% | Reasonable |
| Life expectancy – Males currently aged 45/65 | 21.4 / 20.6 years | Actuary approach is reasonable | Reasonable |
| Life expectancy – Females currently aged 45/65 | 25.1 / 23.6 years | Actuary approach is reasonable | Reasonable |

# Other findings – Information Technology

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

| | | | 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** |
| Unit 4 | Detailed ITGC assessment (design effectiveness only) | Amber | Amber | Amber | Amber | No significant deficiencies identified. See non-significant findings reported in page 57. |
| Active Directory | Detailed ITGC assessment (design effectiveness only) | Amber | Amber | N/A | N/A | |

*Insufficient evidence was provided for the Grant Thornton IT Audit Team to assess the controls in relation to change management as we noted that a third-party vendor G7 is responsible for developing and implementing changes / patches for the Unit4 application as part of the software maintenance and support services. As G7 are responsible for maintaining Unit4 application, we were unable to verify the segregation of duties between developers and implementers within Unit4. This did not impact our audit approach.

Assessment:
- [Red] Significant deficiencies identified in IT controls relevant to the audit of financial statements
- [Amber] Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- [Green] IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- [Black] Not in scope for assessment

# Communication requirements and other responsibilities

# Other communication requirements

| 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 Corporate Investigations Team. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. |
| Matters in relation to related parties | We are not aware of any related parties or related party transactions which have not been disclosed. However, in Appendix B, we have raised a recommendation that Register of interests should be complete and up to date for the financial statement preparation. Management should introduce their own completeness checks to ensure all appropriate bodies are considered for disclosure when preparing the accounts. |
| Matters in relation to laws and regulations | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| Written representations | We draw your attention to the draft Letter of Representation which is presented alongside this report. |
| Confirmation requests from third parties | We requested from management permission to send confirmation requests to the Authority's banking and treasury partners. This permission was granted and the requests were sent. The requests were returned with positive confirmation. |
| Disclosures | Our review found no material omissions in the financial statements |
| Significant difficulties | In our Headlines of this report, we have reported delays to the completion of the audit due to the Council's draft accounts not accounting for the implementation of IFRS 16, which came into effect 1 April 2024. We have also identified a number of errors in our testing that have resulted in additional work to gain appropriate assurance. This has resulted in fee variations, on page 64. |

# Other responsibilities

| 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 2024). 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.<br>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:<br>• 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<br>• 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 Authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. The findings of our value for money work have been considered and are not deemed to impact the anticipated continuation of the provision of a service in the future.<br>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 Authority meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:<br>• the nature of the Authority and the environment in which it operates<br>• the Authority's financial reporting framework<br>• the Authority's system of internal control for identifying events or conditions relevant to going concern<br>• management's going concern assessment.<br>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:<br>• a material uncertainty related to going concern has not been identified; and<br>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. |

# Other responsibilities

| 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, Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect. |
| Matters on which we report by exception | We are required to report on a number of matters by exception in a number of areas:<br>• 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,<br>• if we have applied any of our statutory powers or duties.<br>• where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness.<br>We have reported a significant weakness in arrangements to secure value for money. The Auditor’s Annual report is presented alongside this report. |

# Other responsibilities

| Issue | Commentary |
|---|---|
| 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.<br><br>Note that work is not required as the Authority do not exceed the threshold, however the NAO is taking the option to ask additional questions for a sample of audits after our opinion is issued. We are satisfied that this work would not have a material effect on the financial statements for the year ended 31 March 2025. |
| Certification of the closure of the audit | We intend to delay the certification of the closure of the 2024/25 audit in the audit report, until confirmation has been received from the NAO that the group audit (Whole of Government Accounts) has been certified by the C&AG and therefore no further work is required to be undertaken in order to discharge the auditor's duties in relation to consolidation returns under paragraph 2.11 of the Code. |

# Audit adjustments

# 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.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 | Impact on general fund £'000 |
|---|---|---|---|
| <u>Pooled budgets income and expenditure</u><br>We challenged management to demonstrate that the income and expenditure disclosed in Note 30 Pooled Budgets had been correctly accounted for within the CIES.<br>We identified £5.6m of income and £5.6m of expenditure recognised in the CIES that should not have been recognised under IFRS 11, as it was spend incurred on behalf of the Pooled budget and therefore should have been excluded from the financial statements. Management intended to remove the transactions from the financial statements but the intended correction was duplicated, therefore negating the impact.<br>This error was also identified in the prior year, which is linked to our recommendation on page 52. | Income 5,640<br>Expenditure (5,640) | | |
| Continued overleaf... | | | |

# Audit adjustments

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 | Impact on general fund £'000 |
|---|---|---|---|
| <u>OLB and Surplus revaluations</u><br>We identified a number of errors through the course of our substantive testing which are outlined in detail on pages XXX. This includes: | | | |
| - differences identified between the valuation report and the draft financial statements of £56m, including a £49.2m overstatement because Crown Hills Community College is duplicated on the Fixed Asset register. | | PPE (55,989) | |
| - Ashton green phases reclassified to Assets Held for Sale | | PPE (26,740) | |
| - application of a regional indices applied to assets valued on a desktop basis. | | PPE (2,116) | |
| - inappropriate revaluation of an AUC asset, Hospital Close, an AUC to be held at historic cost. | | PPE 3,212 | |
| - incorrect capital accounting for plant components in leisure centres. | | PPE (19,075) | |
| - errors identified during our detailed testing in relation to key inputs such as obsolescence, land values, rental income, yields and GIA | | PPE (63,623) | |
| - with a corresponding impact on the CIES and Revaluation reserve | | PPE £164,331 | |

Continued overleaf…

# Audit adjustments

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 | Impact on general fund £'000 |
|---|---|---|---|
| Assets under construction<br>We identified two assets that were ready for use before year end and therefore inappropriately classified as assets under construction. The two assets should be classified in other land and buildings, and we challenged management to demonstrate that the current value would not be materially different to the carrying value (at historic cost). | | | |
| - Management identified that Former Netherhall Special School (Elmsbrook) had already been revalued within other land and buildings and is therefore double counted in the balance sheet. Therefore PPE is overstated by £6.5m. | | PPE (6,464)<br>Reval reserve (6,464) | |
| - Management instructed the valuer to revalue the remaining asset, Dock 3-5, which we have audited and gained assurance that the revised valuation of £13.1m is a reasonable estimate. Within Note 15, the carrying value of the asset £15.9m in AUC should be transferred to other land and buildings and then valued at £13.1m. The new valuation means that PPE is overstated by £2.7m with a corresponding revaluation decrease charged to the CIES.<br><br>This links to our recommendation on page 51 | Expenditure 2,714 | PPE (2,714) | |
| Continued overleaf... | | | |

# Audit adjustments

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 | Impact on general fund £'000 |
|---|---|---|---|
| Assets Held for Sale (AHfS)<br>Manor Farm - Farm House has been double counted on the Balance sheet because it is classified in Surplus assets and AHfS. AHfS are overstated by £1.9m. This error was also identified in the prior year, which is linked to our recommendation on page 52. | | AHFS (1,914)<br>Revaluation reserve 1,914 | |
| Assets Held for Sale (AHfS)<br>The Code (ref 4.9.2.22) states that a gain on revaluation in AHfS cannot be in excess of the cumulative revaluation loss previously recognised in the CIES.<br>Management have incorrectly processed revaluation increases to the revaluation reserve in year. AHfS are overstated by £2.8m with a corresponding adjustment to the revaluation reserve. | | AHFS (2,772)<br>Revaluation reserve 2,772 | |
| Heritage assets<br>Heritage assets are overstated by £1.3m because the valuation was not updated on the fixed asset register. | Expenditure 1,336 | Heritage assets 1,336 | |
| Debtors and receipts in advance<br>Leaseholder service charges for 2025/26 of £2.549m were identified as being held both as a debtor and a receipt in advance (liability). We challenged this treatment on account that cash had not been received and as it related to 2025/26 it should not be a debtor. | | Debtors (2,549)<br>Creditors 2,549 | |

Continued overleaf...

# Audit adjustments

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 | Impact on general fund £'000 |
|---|---|---|---|
| <u>Post Balance Sheet events</u><br>The draft accounts (Note 43) contained a contingent liability for a claim lodged with HM Courts and Tribunal Service by Biffa Group Holdings (UK) Limited and group companies.<br>The case has been settled after year end and is an adjusting event under IAS10, because it is evidence that the entity had a present obligation at the end of the reporting period that can now be reliably estimated. The impact is that the settlement of £10m should be recorded as a provision expense at 31st March 2025. | Expenditure 10,000 | Provisions (10,000) | 10,000 |
| <u>Investments treated as capital</u><br>At 31st March 2025, £4.5m of Pooled Property investments are treated as capital, which means that any associated adjustments impact capital reserves, as opposed to usable reserves. These investments are not correct to capital because The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 determines that only investments that relate to the acquisition of share capital in any body corporate can be treated as capital. The Council's usable reserves are understated by £4.5m, and unusable reserves (Capital adjustment account) are overstated by the same amount.<br>We have raised a separate disclosure misstatement regarding the treatment of fair value losses on page 41. | | Usable reserves (4,548)<br>Unusable reserves 4,548 | (4,548) |
| Overall impact | 14,050 | (20,514) | 5,452 |

# 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 | Misclassification or change identified | Adjusted? |
|---|---|---|
| Balance sheet | The unfunded pensions liability is material, recognised at £30.185m in Note 42, and should be presented separately from 'Other Long Term Liabilities' on the Balance Sheet. | ✓ |
| Balance Sheet | As per the previous page, £4.5m of Pooled Property investments are treated as capital, which means that any associated adjustments impact capital reserves, as opposed to usable reserves. Any fair value movements in these investments since 2018/19 have been charged to the Capital Adjustment account. However, there is a statutory override in place where Local authorities in England are required to reverse out all unrealised fair value movements resulting from pooled investment funds, to pooled investment adjustment account, for the period 1 April 2018 through to 31 March 2025. We have determined that £1.612m of cumulative fair value losses since 31st March 2019 should be recorded in a Pooled investment adjustment account, and not the Capital Adjustment account.<br>We are satisfied that there is no impact on the General fund, because this represents a disclosure misstatement between unusable reserves. | |
| Movement in Reserves Statement | A prior year comparator should be included to ensure compliance with IAS1. | ✓ |
| Note 1.11 | An accounting policy will be added for the for componentisation of PPE assets. | ✓ |
| Note 1.12 | The accounting policy for PFI schemes needs updating to reflect the impact of IFRS16 and includes outdated accounting considerations. | ✓ |
| Note 3 | Regarding the changes to the measurement of non-investment assets within the 2025/26 Code, it is more appropriate to state that the impact is currently unknown or not reasonably estimable due to the nature and timing of the valuation process.<br>Also, the disclosure of Amendments to IAS 12 International Tax Reform: Pillar Two Model Rules is inappropriate because the standard has been adopted by the 2024/25 CIPFA Code. | ✓ |





Continued overleaf...

# Audit adjustments

| Disclosure | Misclassification or change identified | Adjusted? |
|---|---|---|
| Note 4 | The Note discloses Going Concern as critical judgement. In our view, this does not represent a critical judgement in with IAS1 and is an accounting policy. Under Practice Note 10, there is limited judgements involved. | X |
| Note 5 | The Note includes uncertainties that are immaterial and therefore should not be disclosed under IAS1.<br>To comply with IAS 1, the narrative on PPE and Fair Value Measurements should include details on the inputs to the valuations which result in a level of material uncertainty.<br>The narrative on the Net Pension Liability does not explain what the asset ceiling adjustment is and the impact this has on estimation uncertainty. | ✓ |
| Note 9 | The presentation of this Note is materially misstated in relation to the accounting treatment of Capital Grants recognised in year, within the Capital Grants unapplied account. The net impact of this issue on reserves is nil, but the presentation of the Note is not compliant with the Code. This error was also identified in the prior year, which is linked to our recommendation on page 52. | ✓ |
| Note 10 | The prior year comparator has missing lines compared to the prior year audited accounts, resulting in incorrect calculations. | ✓ |
| Note 11 | In our testing of the gain/losses on the disposal of non-current assets, we identified that a £2.1m redemption of a short term investment has been recorded inappropriately as a capital receipt. To ensure the short-term investments value on the balance sheet was not overstated, management posted an accompanying loss on the fair value on financial assets by the same amount.<br>The impact is that losses on the disposal of non-current assets (Note 11) are understated by £2.1m, and Financing and Investment Income & Expenditure (Note 12) is overstated by the same amount. This is a classification misstatement and has no impact on the General Fund. | X |

Continued overleaf…

# Audit adjustments

| Disclosure | Misclassification or change identified | Adjusted? |
|---|---|---|
| Note 11 | We have identified two classification misstatements:<br>- £8.48m of Business rates pooling income have been recorded in Note 11 as Other operating income, but it would be more appropriately classified as Taxation and non-specific Grant income within Note 10. This also impacts the CIES presentation.<br>- £1.37m of HRA recharges income have been recorded in Note 11 as Other operating income, but it would be more appropriate classified under HRA cost of services in the CIES.<br>These misstatements have no impact on the General fund. This error was also identified in the prior year, which is linked to our recommendation on page 52. | X |
| Note 15 - Movement on Balances | The gross values of PPE reclassified to and from Assets Held for Sale is incorrect due to a formula error. The gross values should be nil. | ✓ |
| Note 15 - Capital Commitments | We identified a material misstatement in the disclosure of capital contractual commitments:<br>• Hospital Close - Phase 2 commitment should be disclosed at £23m. The draft accounts incorrectly included costs for the Phase 1 contract and did not include the value of an additional contract for the scheme.<br>• We challenged management to identify similar issues in the disclosure and they identified a previously undisclosed commitment of £11m for Southfields / Newry New Build.<br>The Note current discloses a single period when the contract is due which could be misleading as the commitments cover multiple years. The note, including the prior period disclosure, will be updated to Note is more understandable to the reader of the accounts. | ✓ |
| Continued overleaf... | | |

# Audit adjustments

| Disclosure | Misclassification or change identified | Adjusted? |
|---|---|---|
| Note 15 - Revaluations | The revaluation timings note does not reconcile to the PPE note, because it does not include Infrastructure assets where the temporary relief has not been applied. | ✓ |
| Note 18a | We identified a material misstatement in relation to the disclosure of financial assets and liabilities:<br>• Short term debtors are overstated by £19.5m because housing benefit overpayment debtors £2.7m and prepayments £0.4m are recorded as financial assets. We do not deem it appropriate to present these debtors as financial assets, in line with the CIPFA code. Housing benefit overpayment debtors are non-contractual statutory debts, and they don't arise from an exchange of services or assets. This error was also identified in the prior year, which is linked to our recommendation on page 52. Also, the Note excluded the impairment of bad debt £-16.4m, so the financial assets are incorrectly not shown at amortised cost.<br>• Short term creditors are understated by £-62.2m because £-60.1m of creditor codes that are financial liabilities have been inappropriately excluded. Also there are £2.7m debtor codes and £-0.6m of borrowings misclassified as short term creditors in Note 18a<br>• Short term PFI liabilities are understated by £-1.4m.<br>Furthermore, the disclosure of financial instruments does not provide sufficient information to permit reconciliation to the line items presented in the statement of financial position (IFRS 7: 6). The disclosure should include a line that outlines items not classified as financial instrument, to reconcile to the Balance sheet. | ✓ |
| Note 18d | The disclosure reports "investments in commercial institutions (banks and building societies) of £47m", where as the value of Money Market Funds at 31st March 2025 is £21.8m.<br>Within the narrative, the expected credit loss value is incorrectly disclosed at £20.5m, because the value of expected credit losses are £15.6m.<br>The Council no longer has LOBOs at 31 March 2025, therefore the narrative on LOBOs will be removed. | ✓ |

Continued overleaf…

# Audit adjustments

| Disclosure | Misclassification or change identified | Adjusted? |
|---|---|---|
| Note 27 | In the testing of this disclosure, we identified that:<br>• £1.248m of revaluation charges classified as 'Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised', should be classified within 'Downward revaluations, impairment losses and reversal of prior year impairments'.<br>• The disclosure of interest paid is misstated due to a typo, however the figure intended to disclose pensions interest which is a notional accounting charge and is not paid in cash. The correct figure is £15.5m, which reflects actual cash paid in year. This also impacts the prior year disclosure; however, the impact is immaterial. | ✓ |
| Note 30 | The total expenditure met from the pooled budget is not disclosed for the Supply of Integrated Community Equipment Loan Services (ICELS). | ✓ |
| Note 32 | The Accounts and Audit Regulations 2015 requires that those whose salary is £150k or more need to be identified by name. We have identified three employees that earn over £150k that are not identified by name. | ✓ |
| Note 33 | Fees payable for the certification of grant claims and returns for the year are misclassified in the Note. The value should be £85k, and fees payable in respect of other services provided during the year should be nil.<br>Prior year comparator has been labelled as 'restated'. Management confirmed they have updated the prior year figure for the fee variation agreed for 23/24. The entity has chosen to correct an immaterial prior period error by restating the previously reported results and this is not required and is unnecessary under IAS 8 | ✓ |
| Note 35 | In the testing of Revenue Grants, we identified that the Social Services Support Grant of £36.7m has been misclassified in the CIES. Given that the Social Care Grant is ringfenced for adult and children's social care, it should have been treated as a specific grant credited to services, rather than as an un-ringfenced grant.<br>This also has a material impact on the prior year comparators, and a prior period adjustment is required. | ✓ |
| Continued overleaf... | | |

# Audit adjustments

| Disclosure | Misclassification or change identified | Adjusted? |
|---|---|---|
| Note 35 | In the testing of Capital Grants, we identified that:<br>• Code 2.3.2.10-11 requires general un-ringfenced and capital grants to be reported as part of 'Taxation and non-specific grant income'. We selected the Levelling Up Fund capital grant for testing and identified £3.6m incorrectly credited to cost of services. As this is capital, the full amount of £5.2m should be recorded against Taxation & Non-specific Grant Income.<br>• TDFE Basic Need Grant £2.2m is inconsistently disclosed in the current year compared to the prior year comparative, because it is amalgamated within 'Other Dft Grants'.<br>• There are three negative balances reported in the draft Note 35 which were incorrectly included due to a formula error. Capital grant income credited to cost of services is overstated by £9.5m, and non-specific grant income is understated by the same amount. The impact nets to nil on the CIES. | ✓ |
| Note 36 | We have assessed that the related parties note includes transactions that do not meet the definition of a related party under IAS24 and the Code (ref 3.9.2.2). Whilst we are satisfied that management wish to over disclose for transparency, and we do not deem this to materially mislead the user of the accounts, we have raised as a disclosure misstatement.<br>Additionally, the Council includes the LLEP as a related party. Given that the LLEP demised as of 1st April 2024, there is no related party relationship and should be not be disclosed. | ✓ |
| Note 42 | The Note does not agree to the actuary report provided in June 2025. Management based the accounts on a previous version of the actuary report issued in April, which had been superseded. | ✓ |
| Note 42 | In June 2023, the High Court handed down a decision in the case of Virgin Media Limited v NTL Pension Trustees II Limited and others relating to the validity of certain historical pension changes. While there is consideration of the position across the LGPS it is expected that employers include proportionate narrative disclosures in the notes to the accounts, given the estimated impact is uncertain. | ✓ |

Continued overleaf…

# Audit adjustments

| Disclosure | Misclassification or change identified | Adjusted? |
|---|---|---|
| Note 42 | The auditor of Leicestershire Pension Fund communicated the following findings with regards to Leicester City Council:<br>• The data submitted to the actuary by the pension fund reported benefits paid of £70.3m. The actuary estimated the benefits paid figure at £61m, resulting in a difference of £9.3m. There is a net nil impact on the net asset/liability calculation, because gross assets and gross liabilities are both reduced by this amount and does not impact the primary statements. This is instead a disclosure misstatement within Note 42.<br>• When comparing the data submitted by the Pension Fund to the actuary, to the Pension fund financial statements published at a later date, they identified a misstatement in the data used by the actuary. Apportioning this for the Council's share of assets indicates that assets have been understated by £2.3m. Due to the asset ceiling adjustment, this adjustment does not impact the primary statements and is instead a disclosure misstatement within Note 42.<br>• When comparing the Fund's investment asset listing to audit evidence, they identified a misstatement in the data used by the actuary. Apportioning this for the Council's share of assets indicates that assets have been overstated by £1.6m. Due to the asset ceiling adjustment, this adjustment does not impact the primary statements and is instead a disclosure misstatement within Note 42. | ✓ |
| Note 43 | The note will be updated to reflect the settlement of the Biffa claim, this is no longer deemed to be a contingent liability. | ✓ |
| Narrative statement | Information presented on the demise of the LLEP includes financial information as at 31st March 2024, and needs to be updated for 31st March 2025. | ✓ |
| Annual Governance Statement | There is a lack of clarity regarding which issues are from the prior year, which are new, and whether previously reported issues remain unresolved. The Statement could be improved by more clearly addressing the issues outlined in our Annual Auditor's Report. | ✓ |
| Throughout | A number of narrative amendments and formatting issues have been identified throughout the financial statements. | ✓ |
| Throughout | A number of immaterial disclosures have been included in the financial statements. These should be removed to avoid obscuring material information within the financial statements. | X |

# Audit adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 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 | Balance Sheet £'000 | Impact on general fund £'000 |
|---|---|---|---|
| **Schools' cash balances**<br>Overstatement of cash balances as February balances were not updated to reflect March balances.<br>We deem this to be a deficiency and have raised a recommendation in page 59.<br>This error was also identified in the prior year, which is linked to our recommendation on page 52. | 3,578 | (3,578) | 3,578 |
| Overall impact of current year unadjusted misstatements | 3,578 | (3,578) | 3,578 |

# Impact of unadjusted misstatements in the prior year

The table below provides details of misstatements identified during the prior year audit which were not adjusted for within the final set of financial statements for 2023/24, and which have a resulting impact upon the 2024/25 financial statements. We also present the cumulative impact of both prior year and current year unadjusted misstatements on the 2024/25 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 | Balance Sheet £'000 | Impact on general fund £'000 | Reason for not adjusting |
|---|---|---|---|---|
| **PPE revaluations - indexation**<br>We identified that the valuer had not applied an indices to land assets where the land is notionally apportioned out for accounting purposes. For these assets we would deem it appropriate to also apply the building index to the land element, as ultimately that value is derived from the building value. This had resulted in OLB and OLB and Surplus asset closing balances being overstated by £3.416m, which was reported in our 2023/24 Audit Findings Report.<br><br>To assess the impact on the current year financial statements, we obtained the assets on which this error applied to on and identified the relevant the assets not subject to full revaluation in 2024/25 to which this impact would still apply to.<br>This has reduced the impact on 2024/25 closing PPE balances to an overstatement of £2.5m | | PPE (2,537)<br>Revaluation reserve 2,537 | | Not considered to be material. |
| Overall impact of prior year unadjusted misstatements | 0 | 0 | 0 | 0 |
| Cumulative impact of prior year and current year unadjusted misstatements on 2024/25 financial statements | 0 | 0 | 0 | 0 |

# Action plan

We set out here our recommendations for the Authority which we have identified as a result of issues identified during our 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 |
| --- | --- | --- |
| ● High | **Lack of quality control in capital accounting**<br>A material error has been identified by the audit team because a reconciliation between the accounts and the valuation report was not completed by management.<br>Also, this is the second year we have identified a material error in the treatment of capital adjustments in the Expenditure and Funding Analysis (Note 9).<br>This demonstrates that capital accounting is not subject to appropriate levels of quality review and controls to ensure accurate reporting. | We have noted that there have been improvement in the process compared to the prior year, however, there are some issues we continue which are noted below;<br>– There should be a clear reconciliation between the valuation report and the accounts, and any differences should be investigated and resolved.<br>– Management ensure that capital accounting in the closedown period is subject to appropriate quality reviews before the draft accounts are published.<br>– Adjustments in the Expenditure and Funding analysis note should be checked to the requirements of the Code.<br>Management response<br>**We have made significant improvement in our capital accounting processes and controls, however we recognised this is an area in which we need to continue to improve.** |

Key

- ● High – Significant effect on control system and/or financial statements
- ● Medium – Limited impact on control system and/or financial statements
- ● Low – Best practice for control systems and financial statements

# Action plan

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| High | **Reoccurring errors in the financial statements**<br>We identified several instances of adjusted misstatements reported in the prior year, that were identified as misstatements in the current year draft financial statements.<br>This adds complexity to the financial statements, and time to the audit process, that could be avoided.<br>With statutory reporting deadlines due to come forward significantly over the coming years, it will become increasingly critical for the Council to strengthen the accounts preparation process, reduce the level of errors presented for audit, and ensure that sufficient resources are available to support delivery of the audit within agreed timescales. | The draft accounts should be checked against prior year audit findings to ensure that misstatements previously reported have been considered when preparing the current year draft financial statements.<br>Management response<br>**The Council has struggled with resourcing in the Corporate Accountancy team but have put additional resources in and controls for 2025/26 recognising this issue.** |
| Medium | **Debtor and Creditor reconciliations**<br>Management were unable to provide a listing of homogenous debtors and creditors at year end, that reconciled to the financial statements.<br>The listings provided to us for sampling included amalgamated brought forward balances from prior periods, that management were unable to obtain further information for.<br>We amended our approach to ensure the risk of material misstatement is mitigated by our testing. However, we deem it to be a deficiency that management could not produce cleansed data of homogenous debtors and creditors which supports the value in the trial balance and financial statements. | Management ensure that rolled forward balances from prior periods can be analysed at transactional level. This is an audit requirement, but it is also a key control so that management can effectively monitor the Council's historic assets and liabilities.<br>Management response<br>**This process will be reviewed, and improvements made for 25/26** |

# Action plan

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Medium | **Lack of action over reconciling items in the bank reconciliation**<br>We identified receipts recognised in the ledger, not matched to income in the bank account, that were not resolved in a timely basis as part of the bank reconciliation process. We also identified uncleared cheques that had not cleared since 2022.<br>This represents a deficiency that the bank reconciliation process is not designed effectively. As part of the bank reconciliation, reconciling items should be reviewed to confirm if they are genuine reconciling items and cleared on a timely basis. | Management ensure that appropriate action is taken for reconciling items in the bank reconciliation on a timely basis.<br>Management response<br>**This process is continuing to be reviewed, and improvements to be made for 25/26 , currently corrected in 2025/26** |
| Low | **Management expert output not reviewed**<br>Management engage with an actuary to produce the IAS19 calculation.<br>We noted that management did not undertake a review of the actuary's assumptions used in the IAS19 report before publishing the draft accounts. | Management should ensure that the assumptions used by the actuary are reviewed in a timely manner, to mitigate the risk that assumptions and methods are inappropriate.<br>Management response<br>**This process is continuing to be reviewed, and improvements to be made for 25/26** |

# Follow up of prior year recommendations

We identified the following issues in the audit of the Authority's 2023/24 financial statements, which resulted in 11 recommendations being reported in our 2023/24 Audit Findings Report. We have followed up on the implementation of our recommendations and note eight are still to be completed.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| X | **Completeness of income and expenditure**<br>We identified a number of items through our audit procedures that have not been accrued for appropriately within the 2023/24 financial year.<br>There is scope for larger errors to arise due to the accruals concept not being applied appropriately. We recommended that the Council implement a process to ensure that goods or services that have been provided are routinely identified in a timely manner, to ensure the financial statements are complete. | Through testing of the completeness of Debtors and Creditors, we identified items that have not been accrued for appropriately within the 2024/25 financial year.<br>Whilst we have gained assurance there is not a risk of material misstatement, we will roll forward our recommendation that management should look to improve processes around identifying goods and services that have been provided or received, to ensure that they are accrued for appropriately.<br>Finance personnel responsible for accruals should be reminded of their responsibilities in this area. |

**Assessment**

✓ Action completed

X Not yet addressed

# Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| X | **Accounting treatment of capital expenditure not adding value**<br>In consecutive years we have identified that management has incorrectly processed the accounting treatment for the downward revaluation of capital expenditure deemed to be not adding value.<br>Management should review their processes to ensure accounting for these transactions are compliant with the Code. Specifically, that charges to the revaluation reserve are made where appropriate, or if the spend is to replace a specific component, then a derecognition of the old component should be recognised. There is a risk that if this treatment occurs in future years there may be cumulatively material misstatements. We recommend that management review their process to account for capital expenditure not adding value, in order to bring the treatment in line with accounting standards. | We note that the capital expenditure not deemed to be adding value in the Fixed Asset Register is immaterial in the 2024/25 financial statements, therefore no detailed work has been performed to assess the impact on reserves.<br>However, the value is £2.213m and is above our trivial threshold. Therefore, we deem it appropriate to roll forward our recommendation that management review their process to account for capital expenditure not adding value, to bring the treatment in line with accounting standards. |
| ✓ | **Collection fund suspense accounts**<br>We selected ledger codes to test that are classified as creditors in the financial statements. The Council could not provide evidence to support the existence or accuracy of these balances, because it was cash that had not been reconciled to an income or expenditure item. Whilst we acknowledge the Council are being prudent by recording this cash as deferred income, in our view suspense accounts should be cleared to nil at year end to ensure accurate reporting. Suspense accounts should be cleared to nil at year end to ensure accurate reporting. | We note that this value is trivial in the 2024/25 financial statements, so we deem this recommendation to be addressed. |

# Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| X | **Register of interests**<br>Within our testing of the completeness of related party transaction disclosures, we performed a search on Companies house and identified interests that were not disclosed in the Councillor's, and Senior officer, register of interests. Whilst we were satisfied that there were no instances of related party transactions identified, there is a risk that the related party disclosure would not be complete in future years.<br>Register of interests should be complete and up to date for the financial statement preparation. Management should introduce their own completeness checks to ensure all appropriate bodies are considered for disclosure when preparing the accounts. | Within our testing of the completeness of related party transaction disclosures, we identified an interest on Companies House that was not disclosed in the register of interests. Whilst we were satisfied that there were no instances of related party transactions identified, there is a risk that the related party disclosure would not be complete in future years.<br>We will roll forward our recommendation that management should introduce their own completeness checks to ensure all appropriate bodies are considered for disclosure when preparing the accounts. |
| X | **Revaluation programme**<br>The Code states that valuations of PPE shall be carried out at intervals of no more than five years. In our review of assets not revalued in year, we identified assets that have been last valued longer than a period of five years. Annually, management should review valuation dates on non-current assets and ensure they are valued at least every five years. | Based on our review of Note 15 and the Fixed Asset register, we identified assets that have been last valued longer than a period of five years. Therefore, this recommendation has not been addressed. |

# Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| X | **IT general control findings**<br>Our audit team identified four deficiencies during their work on the design and implementation of IT general controls. We recommended that:<br>1.) Council should undertake a review of all user accounts on the database to identify all generic accounts. For each account identified Council should confirm the requirement for the account to be active and be assigned privileged access, which users have access, and controls in place to safeguard the account from misuse.<br>2.) Council should ensure that end users only have one privileged account per application. This privileged account should be in the user's name rather than a generic name.<br>3.) For future changes to batch job processing schedules, management should ensure that the review and approval of key change management decisions are adequately recorded prior to implementation.<br>4.) Management should document the user acceptance testing performed for change implementation, and that appropriate evidence should be retained to evidence sufficient testing being completed before implementation into the production environment. | 1.) While reviewing the database accounts within Unit4, it was noted there were no controls in place to actively monitor the usage of a generic database administrator account – 'sa' within Unit4. We recommend that security event logs should be reviewed formally with sign off on a regular basis by an IT security personnel / Manager who are independent of those administrating the applications and its underlying database. Any issues identified within these logs should be investigated and mitigating controls implemented to reduce the risk of reoccurrence.<br>2.) During the review it was noted that the Council has now removed two duplicate accounts assigned to a single person within the Active Directory group 'Account Operators' and now a single account is account to the concerned user.<br>However, it was observed that administrative access in Active Directory was granted to two users who were senior members of IT Team and it was determined that they are not required to have administrative access due to their managerial responsibilities.<br>Where management is unable to fully segregate access for operational reasons, alternative options to mitigate the risk could include performing a review of change implementation activity logs and privileged user activity performed by senior members of IT. These should be regularly reviewed for appropriateness by an independent individual with evidence retained.<br>The following recommendations have been rolled forward in full:<br>3.) For future changes to batch job processing schedules, management should ensure that the review and approval of key change management decisions are adequately recorded prior to implementation.<br>4.) Management should document the user acceptance testing performed for change implementation, and that appropriate evidence should be retained to evidence sufficient testing being completed before implementation into the production environment. |

# 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**<br>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.<br>We continue to recommend that rationale behind judgements and assumptions applied is evidenced and documented as the valuations are produced, as well as being subject to quality control reviews to mitigate the risk of material and pervasive errors in the financial statements. This is a recommendation rolled forward from 2020/21. | We note that there has been an improvement with regards to how timely we have been provided with evidence to support the valuations.<br>However, we continue to identify material adjustments required to the valuations of other land and buildings, and surplus assets. This is outlined on pages 17 to 19.<br>We continue to recommend that rationale behind judgements and assumptions applied is subject to quality control reviews by experienced valuers to mitigate the risk of material errors in the financial statements. |
| ✓ | **Grants income**<br>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. We therefore recommended that the Council revisits its processes in relation to the processing of schools' grants income to ensure that such double counting does not take place in future. | We did not identify any instances of Grant income being double counted, so we deem this recommendation to be addressed. |

# Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| X | **Journals process**<br>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. This represents a control deficiency which the Council is willing to tolerate but which we will take consideration of in our approach by increasing the number of journals selected for review. | 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.<br>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. |
| X | **Schools cash balances**<br>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 recommended that the Council revisit its closedown processes to ensure that the schools' cash balances as at the balance sheet date are appropriately reflected in the financial statements. | The Council has not taken any actions with regards to this recommendation. We have compared the February bank balances, to the bank confirmation letter at year end and quantified a misstatement £3.578m, which has been reported in page 49. |
| ✓ | **Capital Additions - Goods Received Not Invoiced**<br>We recommended management ensure that capital accruals are reviewed to ensure that they are being based on actual goods/services received. | We did not identify any instances of capital additions being overstated due to capital accruals not being based on actual goods/services received. |

# Value for Money arrangements

# Value for Money arrangements

## Approach to Value for Money work for the year ended 31 March 2025

The National Audit Office issued its latest Value for Money guidance to auditors in November 2024. The Code requires auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Additionally, The Code requires auditors to share a draft of the Auditor's Annual Report (AAR) with those charged with governance by 30th November each year from 2024-25. Our AAR accompanies this audit findings report as a separate item.

In undertaking our work, we are required to have regard to three specified reporting criteria. These are as set out below.

### Improving economy, efficiency and effectiveness

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

### Financial sustainability

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

### Governance

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

In undertaking this work we have identified significant weaknesses in arrangements. Our AAR accompanies this audit findings report as a separate item.

# Independence considerations

# Independence considerations

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers). In this context, we disclose the following to you:

There are no independence matters that we would like to report to you.

We confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Council's Ethical Standard. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in February 2025 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

| Matter | Conclusions |
|---|---|
| Relationships with Grant Thornton | We are not aware of any relationships between Grant Thornton and the Authority 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 Authority or group or investments in the group 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 Authority or group as a director or in a senior management role covering financial, accounting or control related areas. |
| Business relationships | We have not identified any business relationships between Grant Thornton and the Authority. |
| 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 Authority, senior management or staff. |

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 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. Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

# Fees and non-audit services

The following tables below sets out the total fees for audit and non-audit services that we have been engaged to provide or charged from the beginning of the financial year to 28 January 2026, and future fees expected in relation to this financial year, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

The below non-audit services are consistent with the Authority's policy on the allotment of non-audit work to your auditor. None of the below services were provided on a contingent fee basis. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Leicester City Council. The table summarises all non-audit services which were identified, as well as the threats and safeguards that have been applied to mitigate the perceived self-interest, self-review and management threat from these fees.

| Audit fees | £ |
|---|---|
| Audit of Authority | 425,513 |
| Additional fee due to delays in receiving working papers for IFRS16 and PFI liabilities which has required additional audit resource * | 15,000 |
| Additional fee due to additional work in the areas of: expenditure completeness, income completeness, creditors, PPE valuations and school cash * | 6,000 |
| Total | 446,513 |

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

# Fees and non-audit services

## Audit-related non-audit services

| Service | 2022/23 £ | 2023/24 £ | 2024/25 £ | Threats Identified | Safeguards applied |
|---|---|---|---|---|---|
| Certification of Housing Benefits Subsidy claim | 138,975 (final) | 84,255 (estimate) | 95,000 (estimate) | Self-Interest (because this is a recurring fee)<br><br>Self review (because GT provides audit services)<br><br>Management threat | The level of these recurring fees taken on its own individually, and cumulatively, is not considered a significant threat to independence as the fee for this work is £373,230 (spanning three financial years) in comparison to the total fee for the 24/25 audit of £446,513 (23/24 audit £418,997, and 22/23 audit £189,947) 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.<br><br>To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |
| Certification of Pooling of Housing Capital Receipts claim | 10,000 | 10,000 | 10,000 | | |
| Certification of Teachers Pension Return | - | 12,500 | 12,500 | | |
| Total | | | £373,230 | | |

This covers all services provided by us and our network to the Authority, its directors and senior management and its affiliates, that may reasonably be thought to bear on our integrity, objectivity or independence.

# Fees and non-audit services

| Total audit and non-audit fee | |
|---|---|
| (Audit fee) 446,513 – subject to PSAA approval | (Non-audit fee) 373,230 |

The fees payable to Grant Thornton do not reconcile to the financial statements. We have provided a reconciliation:

**Fees per financial statements:**

- External Audit £426,000 (rounded). This aligns to the planned fee.
- Fees payable for the certification of grant claims £62,000 (rounded), includes:

\- 24/25 housing benefit £62,000

- Fees payable for other services £23,000 (rounded), includes:

\- 24/25 teachers pension £12,500; and

\- 24/25 pooling housing capital receipts grant £10,000.

We have raised a disclosure misstatement that fees payable for the certification of grant claims and returns for the year are misclassified in the Note.

**Reconciling items (Audit fees):**

Proposed additional fees due to extended testing £10,000

**Reconciling items (certification of grant claims):**

22/23 pooling housing capital receipts grant delivered in year - £10,000

23/24 pooling housing capital receipts grant delivered in year - £10,000

23/24 teachers pension return delivered in year - £12,500

22/23 housing benefit work delivered in year - £138,975

23/24 housing benefit work which is ongoing - £84,255 (estimate based on work completed to date)

24/25 housing benefit work which relates to the financial year in question - £33,000 difference between the Council’s estimate for the accounts and the revised estimate based on 23/24 work completed to date

# Appendices

# A. Communication of audit matters with those charged with governance

| Our communication plan | Audit Plan | Audit Findings |
|---|---|---|
| Respective responsibilities of auditor and management/those charged with governance | ● | |
| Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks | ● | |
| 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 matters in relation to going concern | ● | ● |
| Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures | | ● |
| 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 | | ● |

# A. Communication of audit matters with those charged with governance

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

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, as a minimum a requirement exists for our findings to be distributed to all the company directors and 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 those charged with governance.

Grant Thornton