

# The Audit Plan for Leicester City Council

Year ending 31 March 2026

25 June 2026



# Contents

Section	Page
The Backstop	3
Introduction and headlines	5
Risks identified and Other matters	7
Our approach to materiality	12
Progress against prior year recommendations [include where relevant]	14
IT audit strategy	20
Value for money arrangements	21
Logistics, our team and communications	25
Fees and related matters	27
Independence considerations	31
Communication of audit matters with those charged with governance	32
Financial reporting changes	34

# The Backstop

## The Future of 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 require audited financial statements to be published by a specific date. The upcoming backstop dates are as follows:

- for years ended 31 March 2026 by 31 January 2027
- for years ended 31 March 2027 by 30 November 2027; and
- for years ended 31 March 2028 by 30 November 2028.

The Regulations are supported by the National Audit Office's (NAO) Code of Audit Practice 2024. The backstop dates were introduced to clear the backlog of historic financial statements and support 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.

In the year ended 31 March 2025 we issued an unqualified audit opinion on Leicester City Council's financial statements, ahead of the backstop date.

However we reported in our 2024/25 Audit Findings report, dated 17 February 2026, that there is a risk that the Council will be unable to deliver a complete and auditable set of financial statements by the deadlines going forward, unless timely and sustained improvements are made to address the recommendations set out in our audit findings and to enhance the overall quality of the accounts.

Continued overleaf...

# The Backstop

## Our Work

In order to achieve the statutory deadlines for the next two financial years, we will be working towards an internal deadline for 2025/26 of 30 November 2026, as a dry run for future years.

We ask you to assist us with this ambition by setting a Governance and Audit Committee date in advance of the end of November 2026, to enable the financial statements to be authorised and signed, and allow us to issue our audit report by that date.

We note that the NAO has already set a requirement that our Value for Money (VfM) work is completed by 30 November each year which has been set to align with the upcoming deadline for the financial statements.

Whilst we recognise that the formal deadline for you as a local authority to publish your draft accounts is 30 June 2026, we feel an important first step towards achieving closure by the end of November is to complete early testing wherever possible. With this in mind, we have undertaken more early testing during our interim audit visit. We will also look to complete a suite of initial sample selection and testing at several audited bodies, starting as early as 15 June.

Bringing testing forward should allow us as a firm to deliver all of our 2025/26 local government audits by the end of November 2026, putting us in a strong position ahead of the backstop formally moving to 30 November 2027. We appreciate this will require a change in how both finance and audit teams operate to make this a reality, and we are committed to making this happen.

We will engage early with your finance team to clearly set out our expectations and what is needed to make a success of these plans, and we ask that you work with us to achieve this. MHCLG have asked us as a firm to report by 31 July 2026, on a case by case basis, our assessment of local authorities' ability to both maintain and where necessary rebuild assurance. Having a clear, agreed project plan to complete our work on both the financial statements and the VfM by the end of November 2026 is a key part of this assurance.

## Our ask of the Council

- Arrange a Governance and Audit Committee meeting for November 2026.
- Ensure sufficient resources are available to support more significant levels of interim audit work going forwards.
- Engage with the audit team on opportunities for early sampling before the main audit begins.
- Notify us promptly of any issues or delays so that we can plan accordingly.

# Introduction and headlines



## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Leicester City Council ('the Council') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued the Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Leicester City Council. We draw your attention to these documents.

## Scope of our Audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Governance and Audit committee); and we consider whether there are sufficient arrangements in place

at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that arrangements are in place to use resources efficiently in order to maximise the outcomes that can be achieved as defined by the Code of Audit Practice.

The audit of the financial statements does not relieve management or the Governance and Audit committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council and is risk based.

# Introduction and headlines (continued)

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of control
- Valuation of Land and Buildings, and Surplus assets
- Valuation of the gross pension fund liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined planning materiality to be £21.4m (PY £21.4m) for the Council, which equates to 1.8% of your prior year gross operating costs for the year (based on prior year draft accounts). We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

Clearly trivial has been set at £1.07m (PY £1.07m).

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following risks of significant weakness:

- Financial sustainability
- Improving economy, efficiency and effectiveness

Additional commentary on our Value for money risk assessment is included on pages 21-24.

## Audit logistics

Our interim visit took place in March 2026 and our final visit will take place in June-October 2026. Our key deliverables are this Audit Plan, our Audit Findings Report, our Auditor's Report and Auditor's Annual Report.

Our proposed fee for the audit is £437,427 (PY: £446,513 which included fee variations) for the Council, subject to the Council delivering a good set of financial statements and working papers, no significant changes in scope to the Audit, management being responsive to audit requests and providing sufficient appropriate audit evidence when requested.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2024) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

# Significant risks identified

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

Significant risk	Audit team's assessment	Planned audit procedures
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p>	<p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design and implementation of management controls over journals</li> <li>• review accounting estimates, judgements and decisions made by management</li> <li>• test journal entries</li> <li>• review unusual significant transactions.</li> </ul>



“In determining significant risks, the auditor may first identify those assessed risks of material misstatement that have been assessed higher on the spectrum of inherent risk to form the basis for considering which risks may be close to the upper end. Being close to the upper end of the spectrum of inherent risk will differ from entity to entity and will not necessarily be the same for an entity period on period. It may depend on the nature and circumstances of the entity for which the risk is being assessed. The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgment, unless the risk is of a type specified to be treated as a significant risk in accordance with the requirements of another ISA (UK).” (ISA (UK) 315).

In making the review of unusual significant transactions “the auditor shall treat identified significant related party transactions outside the entity’s normal course of business as giving rise to significant risks.” (ISA (UK) 550).

# Significant risks identified (continued)

Significant risk	Audit team's assessment	Planned audit procedures
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue</p>	<p>We have identified and completed a risk assessment of all revenue streams for the Council. We have rebutted the presumed risk that revenue may be misstated due to the improper recognition of revenue for all revenue streams. This is due to the low fraud risk in the nature of the underlying transactions, and consideration of the risk of material misstatement due to fraud.</p>	<p>As the risk has been rebutted we do not consider this to be a significant risk for the Council and standard audit procedures will be carried out. We will keep this rebuttal under review throughout the audit to ensure this judgement remains appropriate.</p>
<p>The expenditure cycle includes fraudulent transactions</p> <p>Practice Note 10 (PN10) states that as most public bodies are net spending bodies, then the risk of material misstatements due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition. As a result under PN10, there is a requirement to consider the risk that expenditure may be misstated due to the improper recognition of expenditure.</p>	<p>Where we have not identified a significant risk of fraud in expenditure recognition for expenditure streams this is due to the low fraud risk in the nature of the underlying transactions, and consideration of the risk of material misstatement due to fraud.</p>	<p>We do not consider this to be a significant risk for the Council and standard audit procedures will be carried out. We will keep this consideration under review throughout the audit to ensure this judgement remains appropriate.</p>



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

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

# Significant risks identified (continued)

Significant risk	Audit team's assessment	Planned audit procedures
Valuation of Land and Buildings, and Surplus assets	<p>Within the valuation of the Council's Other Land and Buildings, and Surplus assets, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build cost of relevant assets carried at depreciated historic cost and any judgements that have impacted this assessment and the condition of the current assets.</p> <p>For assets valued at existing use value and fair value, the key inputs into the valuation are the yields used in the valuation, including estimated future income from the asset.</p> <p>The 2025/26 Code introduces a new revaluation expedient, permitting valuations to be undertaken every five years, or on a rolling five-year basis, with indexation applied in intervening years. As this is a new accounting requirement, there is an increased risk of error in the valuation of Land and Buildings, and Surplus assets.</p> <p>We therefore have identified that the accuracy of the key inputs, assumptions, and new Code requirements driving the valuation of land and buildings, and surplus assets, as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• document our understanding management's process and controls for the calculation of the estimate</li> <li>• evaluate the competence, capabilities and objectivity of management's expert</li> <li>• evaluate the consistency of the disclosure with the valuation report</li> <li>• evaluate the basis on which the valuations have been carried out</li> <li>• evaluate and test the information and assumptions used by the valuer for a judgemental selection of assets</li> <li>• evaluate the appropriateness of indices used to index the Council's assets, and confirm the accuracy of application</li> <li>• evaluate the accounting entries for the valuation</li> <li>• evaluate the reasonableness of the assumptions used to form the estimate</li> <li>• use an auditor's expert to assist in the audit of the valuation.</li> </ul>

# Significant risks identified (continued)

Significant risk	Audit team's assessment	Planned audit procedures
Valuation of the gross pension fund liability	<p>The valuation of the gross pension fund liability represents a significant estimate in the financial statements due to the and the sensitivity of the estimate to changes in key assumptions.</p> <p>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework).</p> <p>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.</p> <p>A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.</p> <p>With regard to these assumptions, we have therefore identified valuation of the Council's pension fund gross liability as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• document our understanding management's process and controls</li> <li>• evaluate the competence, capabilities and objectivity of management's expert</li> <li>• evaluate the consistency of the disclosure with the actuarial report</li> <li>• evaluate the reasonableness of the assumptions used to form the estimate</li> <li>• obtain assurances from the pension fund auditor on the underlying data shared by the fund to the actuary which has been used in the calculation of this estimate</li> </ul>

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act)

- application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
- issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

# Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

## Description

### Determination

We have determined planning materiality (financial statement materiality for the planning stage of the audit) based on professional judgement in the context of our knowledge of the Council including consideration of factors such as stakeholder expectations, sector developments, financial stability and reporting requirements for the financial statements

## Planned audit procedures

We determine planning materiality in order to:

- establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements
- assist in establishing the scope of our audit engagement and audit tests
- determine sample sizes and
- assist in evaluating the effect of known and likely misstatements in the financial statements.

### Other factors

An item does not necessarily have to be large to be considered to have a material effect on the financial statements

An item may be considered to be material by nature when it relates to instances where greater precision is required.

### Reassessment of materiality

Our assessment of materiality is kept under review throughout the audit process

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

# Our approach to materiality (continued)

Description	Amount (£)	Qualitative factors considered
Materiality for the Council financial statements	21,400,000	We determined materiality for the audit of the Council's financial statements as a whole to be £21.4m, which is approximately 1.8% of the Council's gross operating expenses in the prior period draft accounts. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding. In setting the threshold we have considered users expectations, the previous years' measures of materiality and the level of engagement risk.
Materiality for specific transactions, balances or disclosures	19,300	Due to the public interest in senior officer remuneration disclosures, we design our procedures to detect errors in specific accounts at a lower level of precision, which we have determined to be applicable for senior officer remuneration disclosures. We will apply headline materiality of 1.8% to the total senior officer remuneration, and this will be applied at an individual officer level.
Matters we will report to the Governance and Audit Committee (triviality threshold)	1,070,000	We report to the Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.07m.



Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK) 320)

# Progress against prior year audit recommendations

We identified the following issues in our 2024/25 audit of the Council's financial statements, which resulted in 14 recommendations being reported in our 2024/25 Audit Findings Report. All recommendations have been addressed by management. We will, however, validate these actions as part of the 25-26 audit.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
In progress	<p><b>Lack of quality control in capital accounting</b></p> <p>A material error was identified by the audit team because a reconciliation between the accounts and the valuation report was not completed by management.</p> <p>Also, we have identified a material error in the treatment of capital adjustments in the Expenditure and Funding Analysis in consecutive years. This demonstrates that capital accounting is not subject to appropriate levels of quality review and controls to ensure accurate reporting.</p>	<p><b>Management Response</b></p> <p>A reconciliation between the valuation report and the fixed asset register will be carried out.</p> <p>The Expenditure and Funding analysis note will be checked to ensure capital adjustments are correctly reflected in line with the Code.</p> <p>The Capital Team will cross review each others working papers and the Lead Closedown Accountant will also review the following working papers where issues have been identified in previous years: Fixed Asset Register, Capital Financing Requirement and PFI's.</p>
In progress	<p><b>Reoccurring errors in the financial statements</b></p> <p>We identified several instances of adjusted misstatements reported in the prior year, that were identified as misstatements in the current year draft financial statements.</p> <p>This adds complexity to the financial statements, and time to the audit process, that could be avoided.</p> <p>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.</p>	<p><b>Management Response</b></p> <p>The draft accounts will be checked against the 2024/25 Audit Findings to ensure that previous misstatements are not repeated.</p>

# Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
In progress	<p><b>Debtor and Creditor reconciliations</b></p> <p>Management were unable to provide a listing of homogenous debtors and creditors at year end, that reconciled to the financial statements.</p> <p>The listings provided to us for sampling included amalgamated brought forward balances from prior periods, that management were unable to obtain further information for.</p> <p>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.</p>	<p><b>Management Response</b></p> <p>Debtor and creditor listings will be provided at transactional level, in line with submissions in previous years.</p>
Addressed	<p><b>Lack of action over reconciling items in the bank reconciliation</b></p> <p>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.</p> <p>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.</p>	<p><b>Management Response</b></p> <p>This has been actioned.</p>
Continued overleaf...		

# Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
In progress	<p><b>Reconciliation between the Balance sheet and the Capital financing requirement</b></p> <p>The Prudential Code for capital finance in local authorities requires that annually the authority calculates the actual capital financing requirement (CFR) based on the Balance Sheet. We identified a check was not undertaken, and we identified unexplained differences between the Balance sheet and the CFR.</p>	<p><b>Management Response</b></p> <p>This will be completed in 2025/26 and reviewed by the lead closedown accountant.</p>
In progress	<p><b>Management expert output not reviewed</b></p> <p>Management engage with an actuary to produce the IAS19 calculation. We noted that management did not undertake a review of the actuary's assumptions used in the IAS19 report before publishing the draft accounts.</p>	<p><b>Management Response</b></p> <p>The assumptions used by the actuary will be reviewed for the 2025/26 draft accounts.</p>
Addressed	<p><b>Completeness of income and expenditure</b></p> <p>We identified a number of items through our audit procedures that have not been accrued for appropriately.</p> <p>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.</p> <p>This issue was first reported in 2023/24 and has not yet been addressed.</p>	<p><b>Management Response</b></p> <p>Finance personnel responsible for accruals have been reminded of their responsibilities and key checks.</p>
Continued overleaf...		

# Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
In progress	<p><b>Accounting treatment of capital expenditure not adding value</b></p> <p>Management has incorrectly processed the accounting treatment for the downward revaluation of capital expenditure deemed to be not adding value. 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.</p> <p>This issue was first reported in 2022/23 and has not yet been addressed.</p>	<p><b>Management Response</b></p> <p>We have a process for componentisation included in our accounting policies and where material components are replaced we de-recognise the component in line with the Code and Code Guidance Requirements. However, most expenditure falls below this materiality threshold and hence gets treated as Capex NAV.</p>
In progress	<p><b>Register of interests</b></p> <p>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. There is a risk that the related party disclosure would not be complete.</p> <p>This issue was first reported in 2023/24 and has not yet been addressed.</p>	<p><b>Management Response</b></p> <p>A check to companies house will be carried out to ensure completeness and all appropriate bodies are considered for the disclosure in the accounts.</p>
Continued overleaf...		

# Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
Addressed	<p><b>Revaluation programme</b></p> <p>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.</p> <p>This issue was first reported in 2023/24 and has not yet been addressed.</p>	<p><b>Management Response</b></p> <p>The Fixed Asset Register has been reviewed to ensure that assets are revalued in line with the Code requirements. There has been extensive work to ensure that the Council is complying with the new valuation requirements set out in the 2025/26 Code.</p>
In progress	<p><b>Valuation process of other land and buildings</b></p> <p>We continue to identify material adjustments required to the valuations of other land and buildings, and surplus assets. We recommend that the 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.</p> <p>This issue was first reported in 2020/21 and has not yet been addressed.</p>	<p><b>Management Response</b></p> <p>The Valuation Team to ensure all supporting evidence such as market yields, comparables, reports, etc. are stored in one location and provided to audit and for further due diligence, ensure that a snapshot of the supporting market evidence is stated on the actual valuation worksheet to ensure that the Auditors and the Finance Team understand the exact evidence used to calculate the valuation of a property.</p> <p>Quality control measures have been put in place to ensure data integrity and process by ensuring 2 valuers undertaking a review of the valuations and where there is extensive evidence required to support the figures stated all evidence is placed in a folder with the valuation worksheet.</p>
Continued overleaf...		

# Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
In progress	<p><b>Journals process</b></p> <p>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 took consideration of in our approach by increasing the number of journals selected for review.</p>	<p><b>Management Response</b></p> <p>The Council is aware of this, and officers continue to perform retrospective review of a sample of journals posted.</p>
In progress	<p><b>Schools cash balances</b></p> <p>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.</p> <p>This issue was first reported in 2022/23 and has not yet been addressed.</p>	<p><b>Management Response</b></p> <p>The Council is aware of this and it is still necessary to continue with this approach of using balances from February to ensure we meet the tight deadlines for publishing draft accounts. The Council has reviewed this in 2025/26 to ensure that it does not have a material impact on the accounts.</p>
Continued overleaf...		

# Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
In progress	<p><b>IT general control findings</b></p> <p>Our audit team identified four deficiencies during their work on the design and implementation of IT general controls. We recommended that:</p> <ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> <li>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.</li> </ol>	<p><b>Management Response</b></p> <ol style="list-style-type: none"> <li>1) Management disagree with the interpretation of how the SA account works. The account is disabled and not logged into but as it's a system account it will run background processes.</li> </ol> <p>A disabled SA account in SQL Server showing as "in use" is normal behaviour, as internal system processes, database owners, and SQL Agent jobs often continue to run under the sa context, even when the login is disabled. Disabling the account only prevents new, interactive login attempts.</p> <ol style="list-style-type: none"> <li>2) To confirm there were not 2 separate accounts. The account is for a single user and was added from 2 different groups, The account was added from 2 different user groups using different AD attributes, User ID and Name. Not a duplicate account and Grant Thornton was informed.</li> <li>3) Following the audit recommendations we have slightly amended our sign off procedures, by ensuring that all of our sign off correspondence is saved in the user acceptance document to ensure there is a full audit trail. We also ensure there is a segregation of duties between the lead tester and the approver.</li> <li>4) Management disagree with the wording of this recommendation. We have always carried out user acceptance testing and captured appropriate evidence. However, the decision to go live is now captured in the document going forwards.</li> </ol>

# IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the IT environment related to all key business processes, identify all risks from the use of IT related to those business process controls judged relevant to our audits and assess the relevant IT general controls (ITGCs) in place to mitigate them. Our audits will include completing an assessment of the design and implementation of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure.

The following IT applications are in scope for IT controls assessment based on the planned financial statement audit approach. We will perform the indicated level of assessment:

IT application	Audit area	Planned level IT audit assessment
Unit 4	Financial reporting	<ul style="list-style-type: none"> <li>ITGC assessment (design and implementation effectiveness only)</li> </ul>
Active Directory	IT general control environment	<ul style="list-style-type: none"> <li>ITGC assessment (design and implementation effectiveness only)</li> </ul>

# Value for Money Arrangements

## Approach to Value for Money work for the period ended 31 March 2026

The National Audit Office updated its Code of Audit Practice in November 2024. The Code expects auditors to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report a commentary each year under the specific reporting criteria and where significant weaknesses in arrangements are identified. The new Code requires auditors to share a draft Auditor's Annual Report (AAR) with those charged with governance by a nationally set deadline each year, and for the audited body to publish the AAR thereafter. This new deadline requirement was introduced from November 2025. The three specified reporting criteria are set out below:

### Financial sustainability

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



### Governance

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



### Improving economy, efficiency and effectiveness

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



We will continue our review of your arrangements until we sign the opinion on your financial statements before we issue our AAR. Should any further risks of significant weakness be identified, we will report this to those charged with governance as soon as practically possible. Any significant weaknesses identified will be reflected in our AAR and included within our audit opinion.

# Risks of significant weakness in VFM arrangements

## Risk assessment of the Council's VFM arrangements

The Code of Audit Practice 2024 (the Code) sets out that the auditor's work is likely to fall into three broad areas: planning; additional risk-based procedures and evaluation; and reporting. We undertake initial planning work to inform this Audit Plan and the assumptions used to derive our fee. Consideration of prior year significant weaknesses and known areas of risk is a key part of the risk assessment for 2025/26. We will continue to evaluate risks of significant weakness and if further risks are identified, we will report these to those charged with governance. We set out our reported assessment below:

Criteria	2024/25 Assessment of arrangements	2025/26 Risk assessment	2025/26 risk-based procedures planned
<p>Financial sustainability</p>	<p><b>R</b></p> <p>Two significant weaknesses identified and two key recommendations made - one in relation to the medium-term financial challenge and one in relation to the Dedicated Schools Grant deficit.</p>	<p>Risk of significant weakness in arrangements. While the Council is delivering against its 2025/26 budget and achieving planned savings, the budget is only balanced through planned use of £28.0m of reserves. However, the Council reported an improved financial position in their 2026/27 Budget in February 2026 and no longer needs reserves to balance the 2026/27 budget and instead anticipates generating a small surplus of £2.2m. In 2027/28 only £0.7m is forecast to be needed, however in 2028/29 this increases to £10.3m. At this point, available reserves will have decreased from £65.8m at the beginning of 2025/26 to £51.5m. While there are sufficient reserves to support this in the medium-term, reliance on reserves is consistent with our prior year key recommendation.</p> <p>Furthermore, on 9th February, the government announced financial support to authorities to deal with Dedicated Schools Grant deficits once the statutory override ends. This funding will cover 90% of the deficit accrued to date, subject to a local SEND reform plan being approved by government. The cumulative overspend, stands at £37.9m as at 31 March 2026.</p>	<p>Given the risk of significant weakness identified, we will undertake additional risk-based procedures focusing on arrangements the arrangements the Council has to further reduce costs and increase savings, and the plans the Council has to reduce the annual overspending in relation to the DSG deficit.</p>

# Risks of significant weakness in VFM arrangements

## (continued)

Criteria	2024/25 Assessment of arrangements	2025/26 Risk assessment	2025/26 risk-based procedures planned
Governance	G No risks of significant weakness reported and no improvement recommendations made	No risks of significant weakness identified	As no risk of significant weakness has been identified, no additional risk-based procedures are specified at this stage. We will undertake sufficient work to document our understanding of your arrangements as required by the Code.
Improving economy, efficiency and effectiveness	R One significant weakness identified in relation to the Regulator of Social Housing judgement and one key recommendation made. One improvement recommendation raised in relation to performance reporting.	In our prior year report we stated "The Government's Regulator of Social Housing carried out an inspection of housing properties owned by Leicester City Council in July 2025 and due to issues identified, the Council received a consumer standards rating of C3 which means there are "serious failings and significant improvement is needed". This represents a risk of significant weakness.	To address this risk we will review progress made against our prior year key recommendation and the Regulator's report. This will include reporting to Members.

- G** No significant weaknesses or improvement recommendations.
- A** No significant weaknesses, improvement recommendation(s) made.
- R** Significant weaknesses in arrangements identified and key recommendation(s) made.

# Risks of significant VFM weaknesses

As part of our initial planning work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources where we needed to perform additional procedures. The risks we have identified are detailed on the table overleaf along with the further work we will perform. We will continue to review the Council's arrangements and report any further risks of significant weaknesses we identify to those charged with governance. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the table below.

## Potential types of recommendations



### Statutory recommendation

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



### Key recommendation

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



### Improvement recommendation

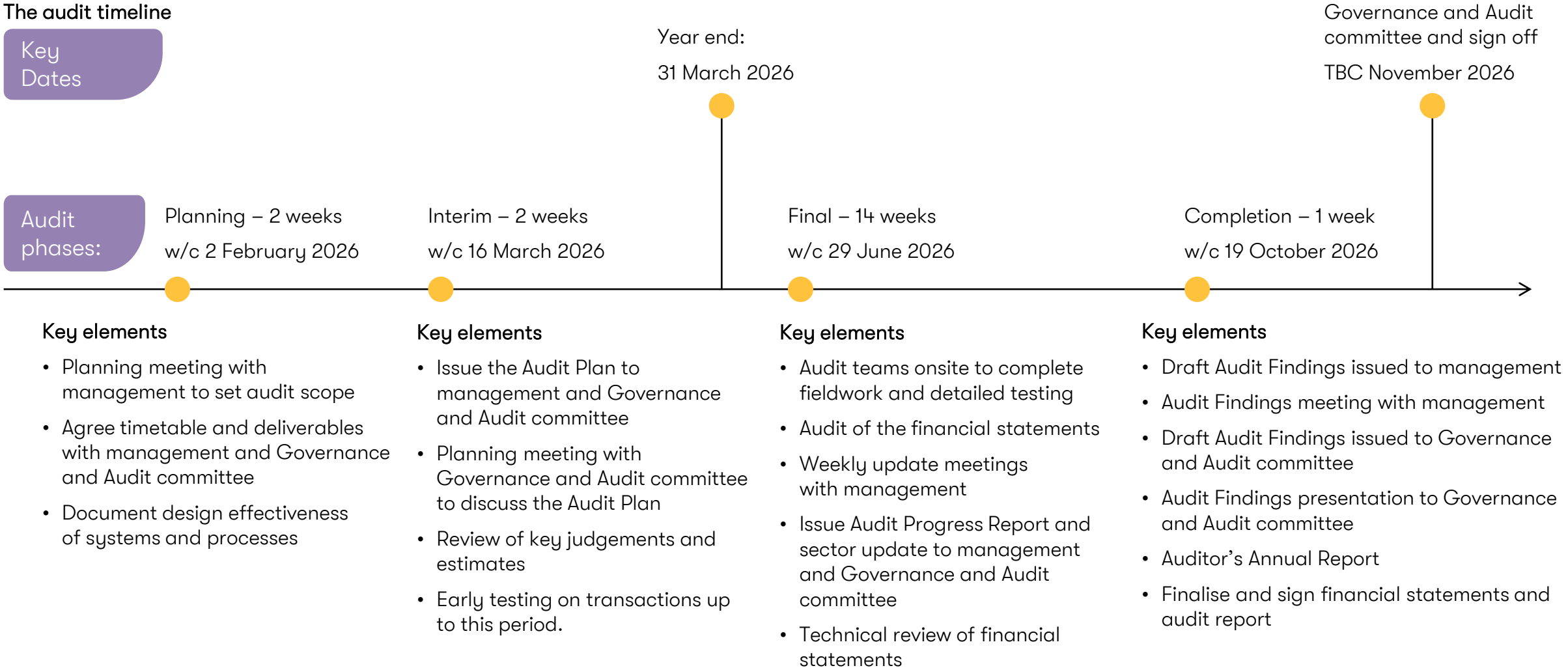
Auditors may also include areas for improvement or to keep in view even if they do not identify any underlying significant weaknesses in arrangements. These recommendations set out actions for consideration which are not a result of identifying significant weaknesses in arrangements, but which if not addressed could increase the risk of a significant weakness in future periods.

# Logistics

## The audit timeline

Key Dates

Audit phases:



Year end:  
31 March 2026

Governance and Audit committee and sign off  
TBC November 2026

### Key elements

- Planning meeting with management to set audit scope
- Agree timetable and deliverables with management and Governance and Audit committee
- Document design effectiveness of systems and processes

### Key elements

- Issue the Audit Plan to management and Governance and Audit committee
- Planning meeting with Governance and Audit committee to discuss the Audit Plan
- Review of key judgements and estimates
- Early testing on transactions up to this period.

### Key elements

- Audit teams onsite to complete fieldwork and detailed testing
- Audit of the financial statements
- Weekly update meetings with management
- Issue Audit Progress Report and sector update to management and Governance and Audit committee
- Technical review of financial statements

### Key elements

- Draft Audit Findings issued to management
- Audit Findings meeting with management
- Draft Audit Findings issued to Governance and Audit committee
- Audit Findings presentation to Governance and Audit committee
- Auditor's Annual Report
- Finalise and sign financial statements and audit report

# Our team and communications

## Grant Thornton core team

<p><b>Avtar Sohal</b> Engagement Lead/Key Audit Partner</p> <ul style="list-style-type: none"> <li>• Key contact for senior management and Governance and Audit committee</li> <li>• Overall quality assurance</li> </ul>	<p><b>William Howard</b> Audit Manager</p> <ul style="list-style-type: none"> <li>• Audit planning</li> <li>• Resource management</li> <li>• Performance management reporting</li> <li>• Quality assurance</li> </ul>	<p><b>Sophie Freeman</b> In charge</p> <ul style="list-style-type: none"> <li>• On-site audit team management</li> <li>• Day-to-day point of contact</li> <li>• Audit fieldwork</li> </ul>
---	---	--

Pool of specialists and technical specialists in relation to Value for Money, IT and PFI

	Service delivery	Audit reporting	Audit progress	Technical support
<b>Formal communications</b>	<ul style="list-style-type: none"> <li>• Annual client service review</li> </ul>	<ul style="list-style-type: none"> <li>• The Audit Plan</li> <li>• The Audit Findings</li> <li>• Auditor’s Annual Report</li> </ul>	<ul style="list-style-type: none"> <li>• Audit planning meetings</li> <li>• Audit clearance meetings</li> <li>• Communication of issues log</li> </ul>	<ul style="list-style-type: none"> <li>• Technical updates</li> </ul>
<b>Informal communications</b>	<ul style="list-style-type: none"> <li>• Open channel for discussion</li> </ul>		<ul style="list-style-type: none"> <li>• Communication of audit issues as they arise</li> </ul>	<ul style="list-style-type: none"> <li>• Notification of up-coming issues</li> </ul>

# Our fee estimate

## Our fee estimate

We have set out below our specific assumptions made in arriving at our estimated audit fees, we have assumed that the Council will:

- prepare good quality sets of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant estimates made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.
- Our fee estimate also assumes that you will engage suitably competent experts to assist management in the following areas:
  - Valuation of the net pension liability – actuary
  - Valuation of land and buildings, surplus assets and any other material non-current assets
  - Fair value disclosures within Financial instruments

## Previous year

In 2024/25 the scale fee set by PSAA was £425,513. The actual fee charged for the audit was £446,513 due to fee variations.

Company	Audit Fee for 2024/25 (£)	Proposed fee for 2025/26 (£)
Leicester Council Audit	446,513*	437,427
<b>Total (Exc. VAT)</b>	<b>446,513*</b>	<b>437,427</b>

\*Includes fee variations that will need to be approved by PSAA. This was communicated in the prior year Audit Findings report

# Our fee estimate (continued)

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2024\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

## PSAA

Local Government Audit fees are set by PSAA as part of their national procurement exercise. In 2023 PSAA awarded a contract of audits for the Council to begin with effect from 2023/24. The scale fee set out in the PSAA contract for the 2025/26 audit is £437,427.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year or opinion issued (but not before 1 December 2025)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here [Fee Variations Overview – PSAA](#)

## Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

# Fees and non-audit services

The following tables below sets out the non-audit services that we have been engaged to provide or charged from the beginning of the financial year to 19 March 2026, and have been updated for expected final fees, 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 Council'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 teams within the Grant Thornton International Limited network member firms providing services to Leicester City Council. The table summarises all non-audit services which were identified. We have adequate safeguards in place to mitigate the perceived self-interest threat from these fees, as set out in the table on the next page:

# Fees and non-audit services

## Assurance Service Fees

Service	2022/23 Fees £	2023/24 Fees £	2024/25 Fees £	2025/26 Fees £	Threats Identified	Safeguards applied
Certification of Housing Benefits Subsidy claim	138,975 (final)	220,500 (estimate)			Self-Interest (because this is a recurring fee)	The level of these recurring fees taken on its own is not considered a significant threat to independence as the fee for this work is £371,975 in comparison to the total fee for the audit of £437,427 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, each is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers Pension Return			12,500	12,500	Self review (because GT provides audit services)  Management threat	
<b>Total</b>				<b>£371,975</b>		

# Fees and non-audit services (continued)

## Other non-audit services

Service	£	Threats Identified	Safeguards applied
Audit Readiness Programme	8,500	We have not identified any threats to our independence. The training is generic in nature, with a focus on how to prepare for an audit. The information provided will not be tailored to any one individual or client. It will not include technical information on accounting treatments or accounting judgements.	We have been given PSAA approval to deliver this service and are satisfied that that this digital platform as it is administered by a separate function of Grant Thornton compared to the audit team acts as an appropriate safeguard to independence.
<b>Total</b>	<b>£8,500</b>		

## Total audit and non-audit fee

(Audit fee) £437,427

(Non-Audit fee) £380,475

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

# 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 confirm there are no matters that we are required to report.

We confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Council's Ethical Standard

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

Matter	Conclusions
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council's board, senior management or staff (that would exceed the threshold set in the Ethical Standard).

We confirm that there are no significant facts or matters that impact on our independence at planning 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.

# 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 and Key Audit Matters	●	●
Planned use of internal audit	●	●
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	●	●

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 Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

# Communication of audit matters with those charged with governance (Continued)

## 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.

Our communication plan	Audit Plan	Audit Findings
Views about the qualitative aspects of the Council'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		●

# Financial reporting changes

## Changes to the CIPFA Code of practice on local authority accounting for 2025/26

The main change is a revaluation expedient for property, plant and equipment. From 1 April 2025, revaluations are required once every five years or on a five year rolling basis with indexation in intervening years. This is a substantial change to the accounting for non current asset, that may require engagement with valuers, changes to underlying systems, asset records and accounting treatment.

## New or revised accounting standards that are expected to be adopted by the CIPFA Code in future years.

### Amendment to IFRS 9 and IFRS 7 - Contracts Referencing Nature-dependent Electricity

The International Accounting Standards Board (IASB) issued amendments to IFRS 9 and IFRS 7 to improve the reporting of nature-dependent electricity contracts, such as power purchase agreements (PPAs). These contracts, which secure electricity from sources like wind and solar power, can vary due to uncontrollable factors like weather. The amendments clarify the 'own-use' requirements, permit hedge accounting for these contracts, and introduce new disclosure requirements to help users of the accounts understand their impact on an entity's financial performance and cash flows. The amendments are expected to be adopted by the CIPFA Code for **2026/27**.

### Amendments to IFRS 9 and IFRS 7 – Classification and measurement of financial instruments

These amendments clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities (including settling financial liabilities using an electronic payment system), adds guidance on the solely payment of principal and interest (SPPI) criteria, and includes updated disclosures for certain instruments. The amendments are expected to be adopted by the CIPFA Code for **2026/27**.

### IFRS 18 Presentation and Disclosure in the Financial Statements

IFRS 18 will replace IAS 1 Presentation of Financial Statements. All entities reporting under IFRS Accounting Standards will be impacted.

The new standard will impact the structure and presentation of the comprehensive income and expenditure statement as well as introduce specific disclosure requirements. Some of the key changes are:

- introducing new defined categories for the presentation of income and expenses
- introducing specified totals and subtotals, for example the mandatory inclusion of 'Operating profit or loss' subtotal
- disclosure of management defined performance measures
- enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes.

IFRS 18 will be effective in the UK from 1 January 2027 and so could impact the CIPFA Code from **2027/28**.



© 2026 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.