Grant Thornton

The Audit Findings for Lancashire County Council

Year ended 31 March 2020

19 October 2020

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council. The Council has dealt with the administration of grants to businesses, getting PPE to frontline carers, the closure of schools, staff re-deployment, evaluated and redesigned the provision of services during lockdown, and then the additional challenges of reopening services under new government guidelines whilst also managing the ongoing impact of local lockdowns across the county. The Council has also moved from being an organisation which is primarily location-based to one that is primarily remotely based. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit within our audit plan which was presented at the 27 July Audit, Risk and Governance Committee. In the plan we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6. Restrictions for non-essential travel has meant both Council and audit staff have had to work remotely, including the remote accessing of financial systems, video calling, and verifying the completeness accuracy of information produced by the entity through screensharing. The finance team were very responsive to audit queries during the course of the audit, testament to the way that they have embraced remote working and are facilitated by the Council's IT infrastructure and having access to the relevant financial systems.
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 group and Council's financial statements: • give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA (Chartered Institute of Public Finance & Accountancy)/ Local Authority (Scotland) Accounts Advisory Committee (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 inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on remotely during August-October. Our findings are summarised on pages 4 to 23. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the appropriate resolution of the outstanding matters and work-in-progress areas of the audit detailed on page 5. In addition to the list on page 5 we will also require: • 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 is consistent with our knowledge of your organisation. Our anticipated audit report opinion will be unqualified but with an Emphasis of Matter paragraph in relation to material uncertainties with regards to the valuation of PPE and the estimated share of the Pension Fund property assets – refer to page 8 for further detail.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Lancashire County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 18-22.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code but are unable to issue our completion certificate until we have completed our consideration of matters brought to our attention by the Council in 2013. We are continuing to monitor developments with the ongoing Police investigation. Once the Police investigation is concluded, and we have had an opportunity to consider the outcome, we will assess the implications for our audit of the Council.

Acknowledgements

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

Audit approach

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for Lancashire County Developments Limited (LCDL) balances was required, which were completed by the component audit team (Beever and Struthers LLP); and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Risk and Governance Committee meeting on 19 October 2020 and in advance of the national deadline, as detailed in Appendix E. These outstanding items include:

- Completion of our audit procedures on the valuation of Land & Buildings
- Completion of our audit procedures on the valuation of the net pension liability, as well as resolution of wider national pension issues, albeit it is unlikely that these will have a material impact on Lancashire County Council;
- Completion of our assurance procedures over payroll costs;
- completion of our work on some minor disclosure notes;
- final review of the audit file by the Review Partner; and
- updating our post balance sheet review to the date of the audit opinion.

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£27.124m	£27.120m	1.25% of prior year gross expenditure
Performance materiality	£20.340m	£20.340m	75% of materiality
Trivial matters	£1.356m	£1.356m	5% of materiality
Materiality for senior officer remuneration	£0.015m	£0.015m	Lower level of precision for detecting errors in these specific accounts

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation; - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates; - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement	In response to this risk we: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the groups' property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • engaged the use of an auditor experts for asset valuations **Findings** Subject to completion of outstanding procedures, there are no issues to bring to your attention.
Valuation and accounting for the £350 million UK MBA bond loan The Council in March 2020 was the first Council in the UK to secure loan financing through the UK Municipal Bonds Agency (UKMBA). This was an alternative to the current methods of borrowing, for example from the Public Works Loan Board (PWLB) and other local authorities. The Council has provided a sole Council guarantee for the £350 million issue of bonds over the 5 year term. UKMBA are the issuer of the Bond and it is listed on the London Stock Exchange. Management need to consider the terms of the agreement of these loans and make judgements as to the appropriate accounting and disclosure treatment.	In response to this risk we: • assessed management's processes and assumptions for identifying critical judgements • discussed with management the basis on which the valuation and accounting was carried out, including advice received from treasury management advisers and legal advisors • considered the governance framework in relation to the Bond financing • reviewed the accounting and narrative disclosures within the financial statements in relation to the loan including the Narrative Report. **Findings** There are no issues to bring to your attention.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Management override of controls Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the group, which was one of the most significant assessed risks of material misstatement.	In response to this risk we: • Evaluated the design effectiveness of management controls over journals; • Analysed the journals listing and determined the criteria for selecting high risk and unusual journals; • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration, and considered the impact of IT control weaknesses within this testing; • Gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Findings** Subject to completion of outstanding procedures, there are no issues to bring to your attention.
Valuation of pension fund net liability The pension fund net liability, as reflected in the Council's balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1,153m) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	In response to this risk we: • Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • Considered the impact of Covid-19 in the net assets statement; and • 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 additional procedures suggested within the report. In particular reviewing the assessed impact of the MHCLG (Ministry of Housing, Communities & Local Government) McCloud consultation and considering the impact of the 'other experience' adjustment arising from the updating of member data as part of the 2019 triennial actuarial update. **Findings** Subject to completion of outstanding procedures, there are no issues to bring to your attention.
Revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	We rebutted the risk at the planning stage of our audit. No circumstances arose that indicated we would need to reconsider this judgement. **Findings** There are no issues to bring to your attention.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary

Valuation of land buildings and investment property
The Council revalues its land and buildings on a rolling three year cycle. Investment properties are revalued annually.
These valuations represent 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.
Additionally for land and buildings, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets and investment property) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings and investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.
	In response to this risk we:
	• Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
	• Evaluated the competence, capabilities and objectivity of the valuation expert;
	• Discussed with and wrote to the valuer to confirm the basis on which the valuation was carried out;
	• Engaged our own valuer expert, Wilks Head Eve, to provide commentary on:
	    • the instruction process in comparison to requirements from CIPFA, International Financial Reporting Standards (IFRS) and Royal Institution of Chartered Surveyors (RICS) ; and
	    • the valuation methodology and approach, resulting assumptions adopted and any other relevant points;
	• Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
	• Created an expectation of valuation movements based upon Gerald Eve market index data and compared to the actual valuation movements recorded;
	• Tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
	• 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 to current value at year end.
	
	Findings
	The valuer included in their report a material uncertainty paragraph with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer and disclosed by the Council within note 3 to the financial statements, we will highlight the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts.
	The EOM paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the Council's valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Lancashire County Developments Limited	Beever and Struthers LLP	• We have reviewed the consolidation undertaken by the Council and reviewed the work undertaken by the company's auditor on those entries that are material to the financial statements of the Group.	• The consolidation of Lancashire County Developments Limited has been agreed through to the supporting records of the Council and to the audited company accounts. • We have received confirmation from the company auditor that there are no further issues that should be reflected in the group accounts. • We have received the final signed financial statements and audit opinion of the company. As a result of the above, there are no matters we need to consider impacting on our opinion on the group accounts.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – £2,022m	Land and buildings comprises £1,669m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£353m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged it's internal valuation team to complete the valuation of the majority of properties as at 1 April 2019 on a three yearly cyclical basis. A specialist external valuer, Rushton, was also engaged to revalue the Council's Waste assets. To determine that the carrying value of those assets valued at 1 April 2019 (and also assets not valued in 19/20) is not materially different to their current value, management perform an indexation analysis to project the asset values and assess whether there is a material difference. The assessment is supported by market commentary and indices provided by the internal valuation team. Circa 48% of total assets were revalued during 2019/20. The valuation of properties valued by the valuer has resulted in a net nil movement in value. Management has considered the year end value of non-valued properties (circa 52%), and the potential valuation change in the assets revalued at 1 April 2019, based on the market review provided by the valuer as at 31 March 2020, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties' value. The total year end valuation of other land and buildings was £2,022m (2018/19 £2,022m) In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue within its Key Judgements and Material Estimates disclosure in the Statement of Accounts.	• We have assessed the Council's valuers, both the internal valuation team and , to be competent, capable and objective. • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate – refer to page 8 for our findings. • We have challenged the assumptions applied by the valuer in the valuation calculations. • The valuation method remains consistent with the prior year. • We confirm consistency of the estimate against the Gerald Eve report, by creating an expectation of valuation movements based upon Gerald Eve market index data and comparing to the actual valuation movements recorded. • We have agreed the General Fund valuation report to the Fixed Asset Register and to the Statement of Accounts.	GREEN

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Auditor commentary
Land and Buildings - £2,022m	We have used Wilks Head Eve as our auditor expert to assess the valuer and assumptions made by the valuer – see table below for the work completed and our responses:

Area of review	Wilks Head Eve comment	Audit team follow up	Assessment
Review of whether the valuation reports have been prepared in line with relevant legislation	The Valuers report outlines that the valuations have been provided in line with the RICS Valuation – Global Standards (which incorporate the International Valuation Standards ('IVS') and the RICS UK National Supplement. The reports also include all the expected elements required.	N/A	● GREEN
Disclosure of assumptions and special assumptions used in the valuation	The Red Book requires that, at the outset of the instruction "All assumptions and special assumptions that are to be made in the conduct and reporting of the valuation assignment must be identified and recorded.	All assumptions and special assumptions are set out in the valuer's final valuation report.	● GREEN
Is there a clear rationale/ approach provided to support the valuation methodology adopted for each asset category.	These approaches appear reasonable and are in line with that adopted by other Valuers completing valuations for these purposes.	N/A	● GREEN
Confirmation of Modern Equivalent Asset (MEA) assumptions/ principles adopted and that conclusion can be supported.	On the basis that the modern equivalent adjustments are reflective of market expectations we would be of the view that this process is appropriate in this instance.	Our work includes review and challenge of the MEA adjustments such as deductions for physical deterioration and all relevant forms of obsolescence. Our work in this area is still ongoing but there have been no issues identified to date.	● GREEN
Ensuring assets valuations as at 1/4/19 do not differ materially from their current value as at 31/3/20.	The valuation reports do not reference whether any relevant valuation changes have been considered between the opening book valuation date of 1st April 2019 and the closing book (except for the material change assets which have been valued at the closing book date). It may be prudent to ascertain whether these have been reviewed to ensure that the carrying amount does not differ materially from the value at the balance sheet date – perhaps via a separate 'market review' document.	We have obtained the valuer's market commentary report along with management's indexation exercise which details the approach taken and assurance that there is not material difference in value as at 31/3/20.	● GREEN

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £1,152.9m	The Council's net pension liability at 31 March 2020 is £1,152.9m (18/19 £1,221.6m) comprising the Lancashire County Pension Fund which is part of the Local Government Pension Scheme and unfunded defined benefit pension scheme obligations. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £68m net actuarial loss during 2019/20.	• We have assessed the Council's actuary, Mercers, to be competent, capable and objective. • We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2019/20 roll forward calculation carried out by the actuary and have no issues to raise. • As part of the procedures we undertook to review the actuarial assumptions we performed additional procedures, in particular reviewing the assessed impact of the MHCLG McCloud consultation and considering the impact of the 'other experience' adjustment arising from the updating of member data as part of the 2019 triennial actuarial update. Our work on this area is still ongoing. • We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:	GREEN

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4% - 2.3%	●
Pension increase rate	2.1%	2.1%	●
Salary growth	3.6%	3.35% - 3.6%	●
Life expectancy – Males currently aged 45 / 65	Pensioners: 22.3 years Non-pensioners: 23.8 years Used CMI 2018 Model with long term improvement rate of 1.75%	Scheme specific but would expect actuary to calculate using the Continuous Mortality Investigation (CMI) 2018 Model with long term improvement rate of 1.25% pa	●
Life expectancy – Females currently aged 45 / 65	Pensioners: 25 years Non-pensioners: 26.8 years Used CMI 2018 Model with long term improvement rate of 1.75%		●

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £1,152.9m		• We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate. • We have confirmed there were no significant changes in 2019/20 to the valuation method. • We conducted an analytical review to confirm reasonableness of the Council's share of Local Government Pension Scheme (LGPS) pension assets. • Management have updated the disclosures within the pension liability note for the actual employer contributions made in year (rather than the estimate used by the actuary). This has resulted in a £8m increase to the fair value of scheme assets. The estimated employee contributions was not updated for the actual contributions received. If it had been it would have decreased the fair value of scheme assets by £1.65m which is below our performance materiality level, but above our reporting threshold. • In line with RICS guidance, the valuer for Lancashire Pension Fund disclosed a material uncertainty in the valuation of the Pension Fund's Property assets as at 31 March 2020 as a result of Covid-19. The Council has considered the impact of this on it's share of the property assets and included disclosures on this issue within its Key Judgements and Material Estimates disclosure in the Statement of Accounts. Our work to date confirms that the decrease in the estimated IAS 19 net pension liability is reasonable.	GREEN

Significant findings – going concern

Our responsibility

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

Going concern commentary	Auditor commentary
Management's assessment process The Council’s accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.	We have subjected the 2020/21 budget, Medium Term Financial Strategy (MTFS) to 2024/24 and cash flow forecast to November 2021 to detailed scrutiny and reviewed the planned savings proposals for 2020/21 and 2021/22 in our consideration of the appropriateness of management’s use of the going concern assumption. In 2020/21 the Council expects to achieve a balanced budget, noting the additional costs/loss of income due to Covid-19. Additional funding from central government for income loss will reduce this overspend but, at this point in time, it is unclear how much of Covid-19 related costs will be met by central government. If central government does not meet all Covid-19 related costs the Council will need to meet the costs by utilising its earmarked reserves. However, the Council’s reserves position is strong. Refer to detailed findings on pages 22 to 25 of this report. The Covid-19 pandemic has resulted in several overspends in 2020/21 service area budgets due to a reduction in service user income and an increase in demand and staffing pressures. There are also several service area budgets with underspends as a result of less than anticipated demand, as well as a significant underspend within the Chief Executive Services directorate due to strong treasury management performance. The year end cash position held by the Council was very positive and the cash & cash equivalents balance held at 31/3/20 was £634m which is a significant amount to draw upon to support liquidity. The Council also recognises that forecasting in this current climate is challenging especially due to the volatility in demand for services, particularly within adult and children’s social care services, and the uncertainty this can cause on financial forecasts. **Conclusion** The Council’s reserves position is strong. At 31 March 2020 the Council’s total usable reserves, excluding capital reserves, stood at £268m. The main reserve used to fund budget shortfalls is the Transitional reserve which at 31/3/20 amounted to £151m. The Council’s MTFS, after updates for Covid-19, forecasts this reserve to be sufficient to meet the identified funding gaps for financial years 2021/22, 2022/23 and partway through 2023/24. The Council has included Events after the Reporting Period disclosure in the Statement of Accounts in relation to the impact of Covid-19. We have not identified any material uncertainty about the Council’s ability to continue as a going concern.

Other matters for communication

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

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Risk and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking, investment and borrowing institutions. This permission was granted and the requests were sent. At the time of writing we are still awaiting receipt of several confirmations.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management were provided.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/Society of Local Authority Chief Executives (SOLACE) guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the National Audit Office) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Our work in this area will be complete in line with the national deadline.
Certification of the closure of the audit	We are unable to certify the closure of the 2019/20 audit of Lancashire County Council in the audit report, as detailed in Appendix E, until we have completed our consideration of matters brought to our attention by the Council in 2013. We are continuing to monitor developments with the ongoing Police investigation. Once the Police investigation is concluded, and we have had an opportunity to consider the outcome, we will assess the implications for our audit of the Council.

Internal controls

The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan at Appendix A.

	Assessment	Issue and risks	Recommendations
1	MEDIUM	**Oracle security and access controls** Control weaknesses were identified in the security and access of the Council's Oracle system. The most significant weaknesses were: • IT users self-assigning Oracle responsibilities without approval or subsequent timely removal • Limited evidence of appropriate restriction of Oracle database administration The journals work we have carried out has not identified issues in any of the areas above, indicating that they are not risks of material misstatement to the 2019/20 financial statements.	IT audit findings to be reviewed by the Council's IT team and any inappropriate access/responsibilities to be resolved/removed.
2	MEDIUM	**Payroll Leavers Controls** As part of our procedures to gain assurance over pay expenditure we test a sample of leavers in year to ensure they are removed from the payroll system on a timely basis. We then rely on the payroll staff numbers report for our substantive analytical review of payroll costs. Our testing of a sample of 8 leavers to date found that all staff members were removed from the system between 3-6 months subsequent to the termination date. The process for staff to be removed is via notification to BT Lancashire Services (BTLS) who maintain the administration of the payroll system. The Council should ensure all staff are removed from the system within a timely basis	We recommend that the Council review the current process with regards to notification of leavers to BTLS for processing and ensure that leavers are removed within a timely basis.

Controls

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

Value for Money

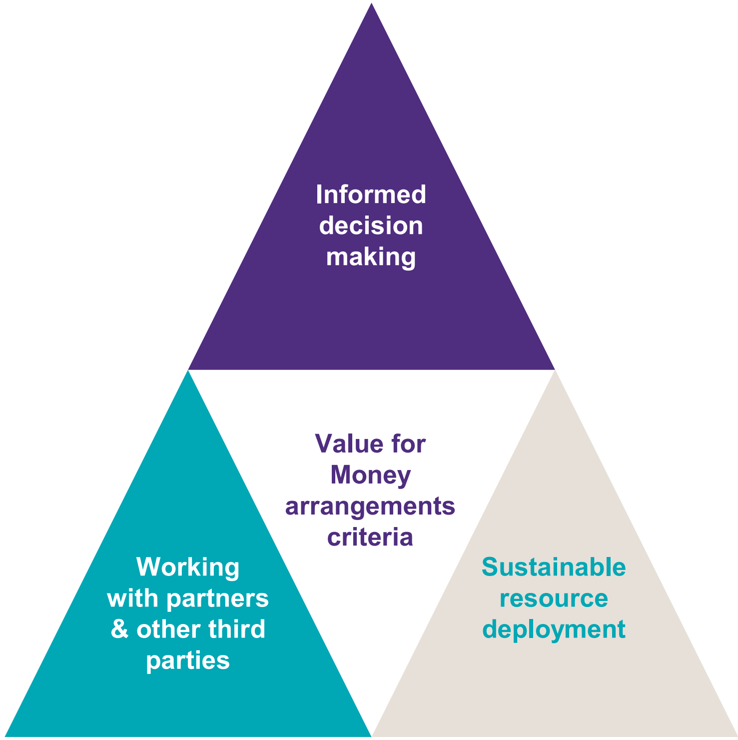
Background to our VFM approach

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

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in March 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated July 2020. We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

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

Value for Money

Our work

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

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the robustness of the Medium Term financial Strategy (MTFS) and the reasonableness of the underlying assumptions, as updated for Covid-19;
- the in year budget monitoring arrangements;
- the challenge of the on-going savings programme facing the Council during the period of the MTFS.

Overall conclusion

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

The text of our proposed report can be found at Appendix E.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Value for Money

Key findings

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

Significant risk: Financial sustainability

The risk as identified in our 2019/20 Audit Plan

The Council's Medium-Term Financial Strategy (MTFS) 2020/21 to 2023/24 updated in February 2020, shows a cumulative funding gap between 2021/22 and 2023/24 of £33 million. The funding gap assumes that significant savings identified of £120 million are delivered over the period of the MTFS.

Significant savings plans have been in place at the Council, and the reliance upon reserves to balance the budget has decreased since 2018/19. The Council's 2019/20 budget required £10 million from reserves. The 2020/21 budget assumes a nil call on reserves. The 19/20 financial year ended with an underspend of £1.7m.

The need to deliver the agreed savings and close the funding gap in the MTFS, represents a significant challenge for the Council.

The implications of the Covid-19 pandemic on the Council in terms of the financial impact and the savings are currently being reviewed. We will particularly focus on the impact of Covid-19 on the 2020/21 budget and beyond.. To date the Council has received £56m in emergency support from Government . A further funding package was announced in July 2020 to support income losses, but the precise details of how it impacts on the Council will need to be worked through.

We will review the Council's arrangements for updating, agreeing and monitoring its financial plans including the assumptions within them. This will include the consideration of Brexit in the Council's planning processes. We will also consider the arrangements in place to monitor the identification, pace, delivery and reporting of savings. This work is part of the sustainable resource deployment sub-criteria.

Findings

2019/20 Financial outturn

In a year where March saw the outbreak of the Covid-19 pandemic, the Council has performed well to achieve a breakeven position for its service area budgets. The Council responded to the pandemic situation quickly, making critical decisions in response to constantly moving government guidance. With only 2 weeks remaining of the 2019/20 financial year with the outbreak of the pandemic, impact on the financial outturn was minimised for 2019/20 but there will be a larger impact on 2020/21.

The outturn for 2019/20 highlights the effective management action taken to address the pressures throughout the year. The final position at the end of the year is net expenditure of £800.5m, which represents an in-year underspend of £1.7m (0.22% of the revenue budget). The revenue position includes a level of support from reserves that had previously been agreed (£10.2m) which covered the funding gap, and if this support had not been available then expenditure would have exceeded income by £8.5m.

The most significant areas of over and underspend in 2019/20 were Adult Social Care which had a £24.930m overspend (7.2%), primarily as a result of under delivery of savings and financial support being provided to two of the local Clinical Commissioning Groups (CCGs). This was largely offset by the £22.888m underspend within Treasury management due to the gains arising from the sale of gilts and bonds resulting from the significant volatility of the market.

Value for Money

Significant risk: Financial sustainability - continued

2020/21 Budget and beyond

The Councils' Medium-Term Financial Strategy, set in 2019/20, covering the period 2020/21 to 2023/24, was based on a number of assumptions due to the ongoing and unprecedented uncertainty in relation to future local government funding – after review of the key assumptions the "most likely" scenario was adopted within the MTFS. The overall position over the 4-year period indicates a structural deficit of £33.312m by 2023/24, which varies in size over each of the 4 years of the forecast. Alongside this, the agreed 2020/21 budget did not include any use of reserves, and so following commitments of £2.9m, this would leave a forecast of circa £150m available within the Transitional Reserve to support the financial gap in 2021/22 and beyond.

Our initial review of the key assumptions adopted for the MTFS and the process adopted by the Council found that the approach adopted by the Council was reasonable and that prudence was applied in the adoption of the assumptions. However, as a result of the pandemic it is expected that service departments will experience income and expenditure pressures in 2020/21 and beyond. The magnitude of the pressures will depend on the severity and length of the pandemic. The Council provided a financial impact assessment of Covid-19 to the August Cabinet meeting and has since updated the assumptions within the MTFS to account for the impact of Covid-19 based on the best available information to date. This provided an update to the previous MTFS (from Feb 2020) which showed a deficit of £38.4m in 2023/24. The forecast now indicates a financial deficit of £79.3m by 2023/24 as a result of adjusting the forecast for the impact of Covid-19 and updated assumptions.

The main reasons for the changes to the position are as follows:

- The current forecast collection fund deficit of £30m for 2020/21 which, after the Local Government Secretary announcement on the 2nd July of a proposal for a phased repayment of council tax and business rates deficits over 3 years, leads to an in-year pressure of £10m for each of years..
- Removal of the historic collection fund surplus forecast of £3.75m per annum.
- An assumed zero tax base increase for 2021/22 as a result of Covid related disruption to housing development with consequent decrease in funding available of £9m. With pre-Covid growth of 1.7% per annum assumed thereafter.
- The reflection of the latest Office for Budget Responsibility forecast for the increase in National Living Wage which has an impact on the cost of provision of commissioned adult social care.
- Following a review of current activity, updated demand and volume assumptions in line with Office for National Statistics (ONS) population statistics.
- The pay award for 2020/21 likely to be agreed at higher than the 2% budgeted level.

The overall position over the 3-year period indicates a structural deficit of £52.2m in 2021/22 rising to an aggregated deficit of £79.3m by 2023/24, assuming no additional government financial support in those years.

The ongoing financial pressures suggest that without significant high-level intervention as a result of the recently announced Comprehensive Spending Review, action will need to be taken to reduce net expenditure to meet the potential funding gap for 2021/22 and beyond. To address the forecast pressure officers, working with partners, are developing an evidence base and narrative to influence the forthcoming Comprehensive Spending Review. The Council will also be looking to maximise efficiencies across services and commence work to identify potential savings given that the Spending Review is being conducted amid the extreme financial uncertainties driven by the continue impact of the Covid 19 pandemic.

Value for Money

Significant risk: Financial sustainability - continued

2020/21 Budget and beyond – continued

The Council continues to maintain reserve levels much above those of its peers, but it is recognised that of the £467m total useable reserves, £134m relates to reserves built up to help to finance the Council's capital expenditure plans. Further, the County Fund is maintained at 3% of the net budget and is set aside to cover the authority against a serious emergency situation (e.g. widespread flooding); a critical and unexpected loss of income to the authority and for general cash flow purposes. The main reserve held by the Council for the purpose of supporting forecast funding shortfalls in future year budgets is the Transitional reserve which was £151m as at 31 March 2020 and is forecast to be sufficient to meet the identified funding gaps for financial years 2021/22, 2022/23 and partway through 2023/24. However, the Council must carefully consider the use of its reserves to support revenue shortfalls as it is a non-recurrent source of funding and use of reserves on a large-scale risks creating structural overspends if the Council's finances do not recover quickly and income is reduced long term.

From an audit point of view, the Council has managed its revenue reserves in a way that makes it better placed than most councils to survive the challenges of the Covid-19 pandemic from a financial perspective. This prudent approach to reserves must be continued to address the risk of future pandemics, recessions and other issues or events that may impact on the Council's financial sustainability.

CONCLUSION

Auditor view

Overall, due to the significant level of reserves held by the Council, it is likely one of the better placed authorities to survive the challenges faced in respect of local government finances and the financial impact of Covid-19. We believe the significant risk of financial sustainability is mitigated.

Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP (GT) teams providing services to the Council. The following non-audit services were identified:

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	£6,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,000 in comparison to the total fee for the audit of £111,856 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

	Fees £	Threats identified	Safeguards
Non-audit related			
Chief Finance Officer (CFO) Insights Subscription	£9,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £9,000 in comparison to the total fee for the audit of £111,856 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. The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion. The subscription ended on 31 March 2020.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Councils S151 Officer. None of the services provided are subject to contingent fees.

Appendix A

Action plan

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

Assessment	Issue and risk	Recommendations
● Medium	**Oracle security and access controls** Control weaknesses were identified in the security and access of the Council's Oracle system. The most significant weaknesses were: • IT users self-assigning Oracle responsibilities without approval or subsequent timely removal • Limited evidence of appropriate restriction of Oracle database administration The journals work we have carried out has not identified issues in any of the areas above, indicating that they are not risks of material misstatement to the 2019/20 financial statements.	IT audit findings to be reviewed by the Council's IT team and any inappropriate access/responsibilities to be resolved/removed. **Management Response** IT user access to the system administration account is subject to management approval. A limited number of IT staff have the ability to self-assign additional responsibilities and this is currently recorded on 'ServiceNow' when access to additional responsibilities is required to support incident resolution or change activity. IT will introduce additional controls for this by setting up a new access request procedure with access subject to approval and granted with the appropriate end date. Database administration account credentials are stored in a secure system, access to those details is limited to a small number of users. The user group is monitored for changes and administrative access to the database is audited.
● Medium	**Payroll Leavers Controls** As part of our procedures to gain assurance over pay expenditure we test a sample of leavers in year to ensure they are removed from the payroll system on a timely basis. We then rely on the payroll staff numbers report for our substantive analytical review of payroll costs. Our testing of a sample of 8 leavers to date found that all staff members were removed from the system between 3-6 months subsequent to the termination date. The process for staff to be removed is via notification to BTLS who maintain the administration of the payroll system. The Council should ensure all staff are removed from the system within a timely basis	We recommend that the Council review the current process with regards to notification of leavers to BTLS for processing and ensure that leavers are removed within a timely basis. **Management Response** Work is ongoing to improve performance in this area, and this has been the subject of a number of previous reports to the Audit, Risk and Governance committee.

Controls

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

Follow up of prior year recommendations

We identified the following issues in the audit of Lancashire County Council's 2018/19 financial statements, which resulted in one recommendation being reported in our 2018/19 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	• Manual journals within the financial ledger are input by approved personnel, but they are not subject to authorisation controls at the time of input. • The risk is that the lack of authorisation controls at the time of input creates a higher level of risk of error or manipulation. We recommended management review the authorisation procedures in place over journal input.	**Management response** There are personnel controls in place whereby only finance staff are able to post journals, with little incentive for manipulation. Along with this being part of a centralised finance function having established financial monitoring processes that allows the review of all transactions means the risk for manipulation or uncorrected errors is considered very low.

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

There were no adjusted misstatements which the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Financial Instruments – Note 26 and Technical Annex	• The financial instruments disclosures did not include the Short Positions on Investments (new for 19/20) as a financial liability. • Further disclosures also required to understand the inputs used in the fair value calculations.	• Additional disclosures be added to include the Short Positions on Investments as a financial liability, further disclosures added to detail the inputs used in the fair value calculation of financial liabilities in line with code requirements **Management response** Agreed to amend.	✓
Note 3 - Assumptions made about the future and other major sources of estimation uncertainty	• This note included disclosures where the uncertainty was not estimated to be have a material impact on the accounts. • The note also required reference to the impact of the material uncertainty declared on the valuation of the Council's estimated share of the pension fund's property assets as per the Pension Fund's Net Asset Statement. This is due to the pension fund liability on the council's balance sheet being indirectly related to the assets held by the pension fund.	• Disclosures where the estimated uncertainty is immaterial should be removed. • Disclosure should be added to assess the impact of the material uncertainty declared on the valuation of the Council's estimated share of the pension fund's property assets. **Management response** Agreed to amend.	✓
Note 40 – Events after the reporting period	• Further disclosure should be added to make reference to the impact which Covid-19 has had on the Council since the balance sheet date.	• None-adjusting post balance sheet event should be added to outline the effects Covid-19 has had on the finances of the Council. **Management response** Agreed to amend.	✓
Minor formatting issues	A number of minor formatting issues to improve the presentation of the Council's financial statements.	Some minor formatting issues on the notes to the accounts were agreed with management. **Management response** Agreed to amend.	✓

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit, Risk and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Our testing of a sample of six assets disposed of by the Council in 2019/20 identified two errors: (1) Related to a unique site made up of multiple small plots which have been sold off over the years. Estates believed that all sites had been disposed of and so marked this as a full disposal for finance to process (2 plots of land valued at £46,000 and £30,0000). Only the plot worth £46,000 had been sold in November 2017 and so there should have been one plot worth £30,000 remaining. There has been no actual disposal in 19/20 and therefore error value is £30,000. (2) Related to a former care home sold at auction in March 2019 (value £1,013,672.45). This is a 18/19 disposal but is incorrectly included within the 19/20 disposal population. We have extrapolated the errors across the remainder of the population and determined an extrapolated error of £3,465,891 which is above trivial but below performance materiality – giving us assurance that the disposals balance is not materially misstated. For both items the gain/loss on disposal was correctly recorded in the prior year.	£0	(£1,044)	£0	• Actual errors recorded are trivial in value.
Overall impact	**£0**	**(£1,044)**	**£0**	

Impact of prior year unadjusted misstatements

There were no adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£111,856	£111,856
Total audit fees (excluding VAT)	**£111,856**	**£111,856**

The audit fees note within the financial statements will not include the £24,850 additional fee as it was not agreed with the Council until June 2020 This figure is included within the £111,856 above. The audit fees note also includes £4,000 in respect of the 18/19 Teachers' Pension Return which was carried out and billed in 2019/20.

Non-audit fees for other services	Proposed fee	Final fee
Audit related services: • Agreed upon procedures report – Teachers' Pension return	£6,000	TBC*
Non-audit services • CFO Insights	£9,000	£9,000
Total non- audit fees (excluding VAT)	**£15,000**	**TBC**

* The work on the Teachers' Pension return has not yet started, with the expected completion of the agreed upon procedures in line with the national deadline by the end of November 2020.

Appendix E

Draft Audit opinion

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

Independent auditor's report to the members of Lancashire County Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lancashire County Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and all notes to the financial statements, including the technical annex and the significant accounting policies . The notes to the financial statements include the explanatory notes to the Financial Statements, the Technical Annex and explanatory notes to the Group Accounts. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:
• give a true and fair view of the financial position of the group and of the Authority as at 31 March 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
• have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Executive and Director of Resources the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.
Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

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

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

In our evaluation of the Chief Executive and Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.
However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and Investment Property

We draw attention to Note 3 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in note 3 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's property valuation reports. Our opinion is not modified in respect of this matter.

Other information

The Chief Executive and Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, the Annual Governance Statement other than the Authority and group financial statements and, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Appendix E

Draft Audit opinion

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.
We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

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

Responsibilities of the Authority, the Chief Executive and Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 28, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Executive and Director of Resources. The Chief Executive and Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Executive and Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive and Director of Resources is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.
The Audit, Risk and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

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

Audit opinion

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

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

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2020 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of a matter brought to our attention by the Authority in 2013. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Use of our report

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

[Signature]

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

London
[Date]