The Audit Findings for Lancashire County Council

Year ended 31 March 2021

6 October 2021

Contents

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

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

Paul Dossett
For Grant Thornton UK LLP
Date : 6 October 2021

1. 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 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the 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/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 and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit is being completed on remotely during August-October. Our findings are summarised on pages 4 to 23. Whilst our audit work remains ongoing, to date, we have identified not identified any adjustments to the financial statements that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement. All misclassification & disclosure amendments to the accounts are detailed in Appendix B. We have not raised any new recommendations for management as a result of our audit work. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.

Our work is still ongoing, at this time there are no matters of which we are aware that would require modification of our audit opinion [Appendix D] or material changes to the financial statements, however our final opinion issued is subject to the satisfactory completion of the following outstanding matters;

- Completion of our sample testing for land & buildings valuations as well as responses from our own auditor's expert and challenge over the Council's valuer
- Completion of our testing over high-risk journals
- Completion of our sample testing on the completeness of expenditure
- Completion of our audit procedures on the valuation of the net pension liability;
- Completion of our sampling procedures over non-significant risk areas as well as our work on some minor disclosure notes;
- Completing our assessment over Grants Income Recognition and Presentation
- Further responses and review of the work performed by the component auditor
- Final reviews of the audit file by the Audit Manager, Engagement Leader and Review Partner;
- Updating our post balance sheet review to the date of the audit opinion.
- 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 and the financial statements we have audited.

Subject to the satisfactory completion of the outstanding audit work, our anticipated audit report opinion will be unqualified.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix E to this report. We are aiming to issue our Auditor's Annual Report in January 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified any risks of significant weaknesses to date.
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 intend to delay the certification of the closure of the 2020/21 audit of Lancashire County Council in the audit report, as detailed in Appendix D, due to not having yet completed the work on assessing the council's arrangements for securing value for money or the WGA procedures. We also can not certify the closure of the audit 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.
Significant Matters	We have not encountered any significant difficulties or identified any significant matters arising during our audit to date. Our audit is being completed remotely due to the Covid-19 pandemic with the aid of virtual meetings and sharing of electronic working papers.

2. Financial Statements

Overview of the scope of our audit

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

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 component 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 assurance was required over specific group risks of management override of controls and the valuation of investment properties. These procedures were performed by the component auditor, Beever & Struthers, and reviewed by us as the group auditor.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you on 26 July 2021.

Conclusion

We are still in the process of completing our audit of your financial statements. Whilst no significant matters have been identified to date, subject to satisfactory completion of the outstanding queries being resolved, we anticipate issuing an unqualified audit, as detailed in Appendix D. These outstanding items are listed on page 3 of this report.

Acknowledgements

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

2. Financial Statements

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan on 26 July 2021.

We detail in the table to the right our determination of materiality for Lancashire County Council.

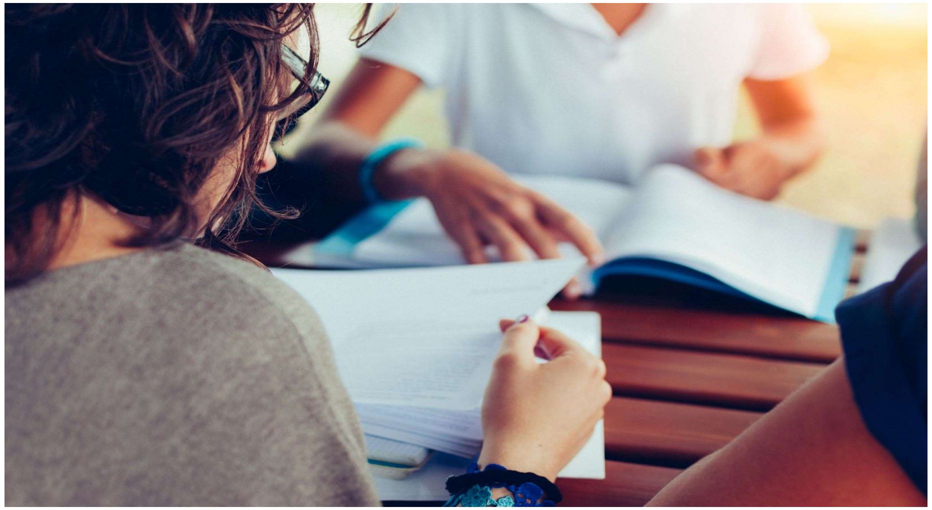
	Group Amount (£m)	Council Amount (£m)	Qualitative factors considered
Materiality for the financial statements	28.134	28.108	The threshold above which could reasonably be expected to influence the economic decisions of the reader of the financial statements. We have set this at 1.25% of prior year gross expenditure
Performance materiality	21,133	21,081	The amount set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. We have set this at 75% of materiality
Trivial matters	1.406	1.406	Based upon 5% of materiality for the financial statements.
Materiality for Senior Officer Remuneration	We will apply heightened auditor focus in this area and will request amendments be made if any errors would alter the bandings reported for any officer.		

2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240, there is a non-rebuttable 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 and the Council, which was one of the most significant assessed risks of material misstatement.	We have: - evaluated the design effectiveness of management controls over journals - analysed the journals listing and determined the criteria for selecting high risk unusual journals - identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration - gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness Our testing of a sample of journals, based upon a risk-scoring method, remains on going. From our audit procedures undertaken to date, we have not identified any evidence of inappropriate management override of controls.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
ISA 240 revenue improper recognition risk	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for Lancashire County Council.
ISA 240 improper expenditure recognition Under ISA (UK) 240 there is a rebuttable presumed risk that expenditure may be misstated due to the improper recognition of expenditure. Whilst we have rebutted the ISA 240 presumption of fraud in revenue recognition, as seen on page 8, we have not rebutted the presumption for expenditure. The current Covid-affected economic environment has placed additional strains on already stretched public sector budgets. There is also significant pressure on authority's to set a balanced budget and to limit excessive use of reserves to balance budgets. We have therefore determined that there is a completeness risk which applies to all non-pay expenditure excluding depreciation, amortisation, audit fees and revaluation adjustments. Our focus therefore, is on expenditure which impacts upon the General Fund. Our procedures described to the right will also provide assurance against the risk of recording 2021/22 expenditure against the 20/21 budget due to the availability of funding in this financial year.	We have: • evaluated the Council's policy for the recognition of non-pay expenditure. • compared listings of 2019/20 accruals to those of 20/21 to ensure completeness of significant recurring items • documented the goods received not invoiced accruals process and the processes management have in place, challenging key assumptions, the appropriateness of source data and the basis for calculations. • substantively tested a sample of expenditure recorded in 2020-21 in the general ledger • obtained a listing from the cash book of non-pay payments made in April and May to ensure they have been charged to the appropriate year. • obtained a listing from the AP system of invoices received in April and May to ensure they have been charged to the appropriate year. • substantively tested a sample of year end creditor and accrual balances. **Our audit sample testing in this area remains on going at the time of writing this report. To date we have not identified any significant issues in relation to expenditure recognition which require reporting to Those Charged with Governance.**

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Land & Buildings and Investment Property The Council revalues its land and buildings on a rolling three-yearly basis. Investment properties are revalued annually and are held within the LCDL subsidiary. 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 as a significant risk for the Group and the Council, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer and discussed with them the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuation report and the assumptions that underpin the valuation • tested a sample of valuations at 31 March 2021 to understand the information and assumptions used in arriving at any revised valuations • tested a sample of revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and assessed how management has satisfied themselves that these are not materially different to current value at year end. • reviewed the work of the component auditor in gaining assurance over the valuation of the investment properties held within Lancashire County Developments Limited. We have begun addressing the planned audit procedures and will be challenging the assumptions used by management and their expert valuer. The valuation date used by the valuer was 1 April 2020. Additionally, we have challenged management's assessment that assets not revalued in year are materially stated at the balance sheet date. Management have applied indices to uplift all asset values to a projected valuation as at 31/3/21. Management's assessment is that the difference in value is £7.2m which is not materially different. We are currently discussing the appropriateness of this assessment with management, and corroborating it to our own assessment of the valuation as at 31/3/21. We will also be reviewing the work performed by the component auditor in relation to investment properties to gain assurance over the work they have performed in relation to the investment yields applied in the valuation calculations, the level of rental collections in light of the pandemic and the overall valuation of investment property held as at 31/3/21. Our work remains on going in relation to the valuation of land, buildings and investments. To date we have no significant matters to report to Those Charged with Governance.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the Pension Fund Net Liability The Council's pension fund net liability, as reflected in its 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 and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (the actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the 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; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; • reviewed whether the pension fund has reported any material uncertainty in relation to investment property valuations as at 31 March 2021 and, if so, assessed the impact on disclosures in the financial statements and on our audit opinion; and • obtained assurances from the auditor of Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Our audit procedures in this area remains on going at the time of writing this report. To date we have not identified any significant issues in relation to valuation of the net pension liability which require reporting to Those Charged with Governance.

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Lancashire County Developments Limited	Beever & 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 which includes work performed on the significant risks of management override of controls and the valuation of investment properties.	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, however we are still in the process of reviewing their work as well as awaiting receipt, from them, of the final signed management letter of representation.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £2,026.1m	Other land and buildings comprises £1,611m 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 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 2020 on a three yearly cyclical basis. To determine that the carrying value of those assets valued at 1 April 2020 (and also assets not valued in 20/21) 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 37% of total assets (by value) were revalued during 2020/21. The valuation of properties valued by the valuer has resulted in a net increase of £2m in value. Management has considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 April 2020, based on the market review provided by the valuer as at 31 March 2021, 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 £2,026.1m (2019/20 £2,022.2m)	• We have assessed the Council's internal valuer, 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, including floor areas • We have agreed the General Fund valuation report to the Fixed Asset Register and to the Statement of Accounts. • Valuation methods remain consistent with the prior year • In relation to assets not revalued in the year, we have compared the Gerald Eve (valuation specialists) report indices to those used by management and challenged management on the resulting difference to the assessment of the valuation of the assets not formally valued in year. These discussions are still on going.	Light Purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £1,516.2m	The Council's total]net pension liability at 31 March 2021 is £1,516.2m (PY £1,152.9m) comprising the Lancashire County 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 at 31 March 2019, utilising 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. The Council has seen a £363.3m net increase in Net Liability Related to Defined Benefit Pension Scheme during 2020/21.	• 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 2020/21 roll forward calculation carried out by the actuary and have no issues to raise. • 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:	Light Purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.1%	2.1 – 2.2%	●
Pension increase rate	2.8%	2.8%	●
Salary growth	4.2%	3.95 – 4.2%	●
Life expectancy – Males currently aged 45 / 65	Pensioners: 22.4 years Non-pensioners: 23.9 years	20.9 - 23.2 22.5 - 24.7	●
Life expectancy – Females currently aged 45 / 65	Pensioners: 25.1 years Non-pensioners: 26.9 years	24.0 – 25.8 25.9 – 27.7	●

- 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 2020/21 to the valuation method
- 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 £4m 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 £1.5m which is below our performance materiality level, but above our reporting threshold.
- Our work is still ongoing, from the procedures performed to date we are satisfied with the reasonableness of estimate of the net pension liability

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £17.7m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £17.7m, a net increase/decrease of £2.8m from 2019/20.	• MRP has been calculated in line with the statutory guidance and the Council's policy on MRP complies with statutory guidance. • Annually the Council presents it's MRP policy for approval from Full Council • The basis of calculating MRP is reasonable, however our own benchmarking of MRP as a % of external borrowing (1.28%) and MRP as a % of the Capital Financing Requirement (1.6%) is less than we would normally expect in order for a prudent provision to be made (circa 2%). The principal reason for the lower than expected MRP level is due to the Council's policy currently allowing for a reduction in MRP due for overpayments calculated on supported borrowing from 2008-2014. The Council also undertook a new bond during 2020-21 which increased the level of borrowing in advance of need temporally, affected the benchmark result. The level of borrowing is expected to reduce significantly by the end of 2021-22.	Light Purple

Assessment

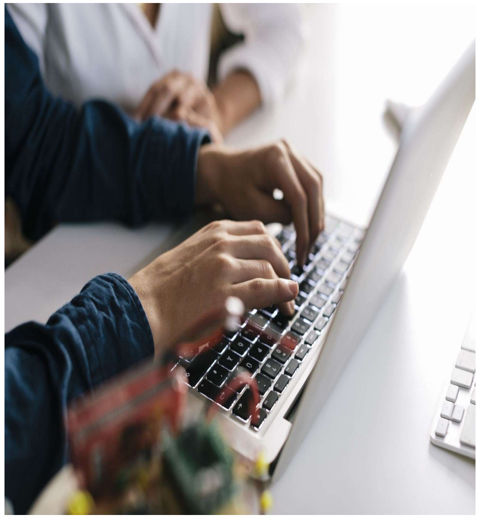
- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider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

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Risk & Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. We have noted that there were 10 members who did not return an annual declaration form. Management have sent reminders to try to obtain the missing declarations.
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, including specific representations in respect of the Group, which is to be included in the January Audit, Risk & Governance Committee papers.

2. Financial Statements - other communication requirements



Issue	Commentary
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 this report we are still awaiting several confirmation letters to be returned to us. If these confirmation letters are not received we will perform alternative procedures.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management have provided by management to date with no issues.

2. Financial Statements - other communication requirements

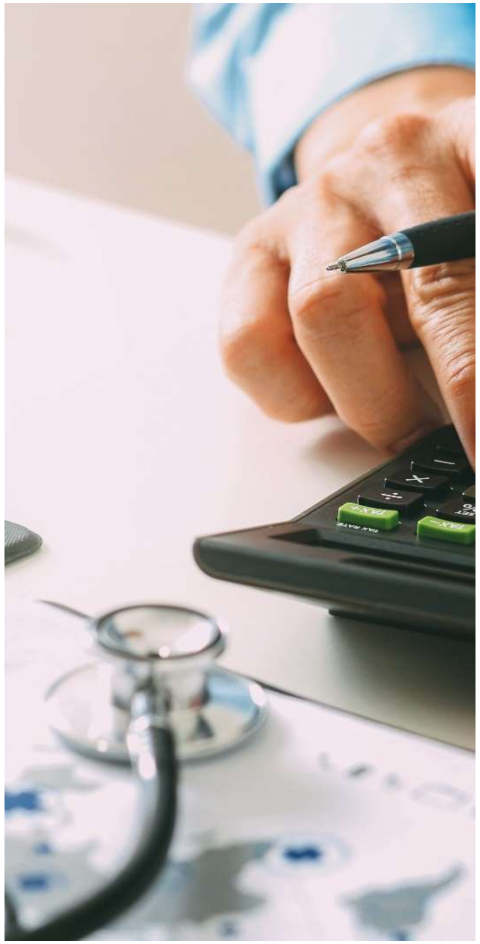
Our responsibility

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

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

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), 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 to date from our reviews of other information. We plan to issue an unmodified opinion in this respect – refer to appendix D.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work will commence on the completion of the financial statements audit.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Lancashire County Council in the audit report, as detailed in Appendix D, due to not having yet completed the work on assessing the council's arrangements for securing value for money or the WGA procedures. We also can not certify the closure of the audit 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.

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

- On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)
- There are three main changes arising from the NAO's new approach:
  - A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
  - More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
  - Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.
- The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix E to this report. We are aiming to issue our Auditor's Annual Report in January 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Financial Sustainability

We will review the Council's arrangements for updating, agreeing and monitoring its financial plans including the assumptions within them. We will also consider the arrangements in place to monitor the identification, pace and delivery of savings.

Governance

We will consider how the Council makes appropriate decisions and does so in the correct way, including assessing arrangements for ensuring decisions are based on appropriate information, how the budget is set, the approach to risk management and other crucial policies and procedures. We will consider if there have been any changes to policies and procedures as a result of Covid-19, consider what the impact of Covid-19 has been on the capacity of Internal Audit to deliver on its plan and also review progress made in relation to Local Government Reorganisation.

We will consider the governance arrangements in place to identify, assess, monitor, deliver and review major strategic investments proposed within the County.

We will also consider how the Council is satisfied that it has been able to achieve value for money in the procurement of Covid-related goods/services and the arrangements which the Council has put in place to address the new risks presented by the pandemic.

Improving economy, efficiency and effectiveness

We will consider what arrangements the Council has in place to understand, review, and improve the services delivered to identify savings, efficiencies, and improvements for service users. We will also conduct our own benchmarking review of the Council to understand how it is performing in comparison to its peers.

Our work to date has not identified any risks of significant weakness and we did not report any specific risks of significant weakness in the Audit Plan. Our work remains on going and further updates will be provided to the Audit, Risk & Governance Committee should any risks of significant weakness be identified.

4. Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix C.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

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

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	£6,500	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 £6,500 in comparison to the total fee for the audit of £142,356 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 fieldwork has been 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.
Non-Audit Related			
CFO Insights Subscription	£10,000	Self-Interest (because this is a recurring fee)	This is an on-line software service that enables users to rapidly analyse data sets. CFO Insights is a Grant Thornton and CIPFA collaboration giving instant access to financial performance, service outcomes and socio-economic indicators for local authorities. It is the responsibility of management to interpret the information. The scope of our service does not include making decisions on behalf of management or recommending or suggesting a particular course of action. 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 £10,000 in comparison to the total fee for the audit of £142,356 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.

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 Audit, Risk & Governance Committee. None of the services provided are subject to contingent fees.

Appendices

A. Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2019/20 financial statements, which resulted in three recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and note that some items remain outstanding, however work is ongoing at the Council to address these matters.

Assessment

✓ Action completed

X Not yet addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	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.	We have performed a similar review of the IT General Controls within the Council as part of our 2020-21 audit and the two items detailed in the prior year remain the two most significant weaknesses. 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.
X	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	Our procedures during the 2020-21 audit have found similar issues still remain and that there can be a significant time lag in leavers being removed from the payroll system. 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.
✓	Journal Authorisation • 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 reviewed the processes in place in the prior year and commented that the there are personnel controls in place whereby only finance staff can 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. Whilst formal journal authorisation requirements are not built into the system suitable alternative arrangements are in place.

B. 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

At the time of writing this report, no adjusted misstatements which impact on the key statements and the reported net expenditure for the year ending 31 March 2021 have been identified. If, in the completion of the remaining audit procedures, we identify any adjusted misstatements we will report them to Those Charged with Governance.

Impact of unadjusted misstatements

At the time of writing this report, there are no adjustments which have been identified during the 2020/21 audit which have not been made within the final set of financial statements. If, in the completion of the remaining audit procedures, we identify any adjusted misstatements we will report them to Those Charged with Governance.

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
Note 9 - Grant income and contributions credited to cost of services Our review of the draft accounts identified that it would be helpful to the reader of the accounts if further information was provided in relation to the significant value of Covid-19 grant which the Council received during 2020-21.	Management have agreed to amend the accounts so that further disclosure around these grants is reflected.	✓
Note 26 - Financial Instruments Our review of the draft accounts highlighted that it would be helpful to include a brief description for the Financial Assets held at Fair Value through Profit and loss and the Financial Liabilities held at Fair Value through Profit and Loss to improve the readability of the accounts	Management have agreed to amend the accounts for these matters	✓
External Audit Fees Our review of the draft accounts identified that it would be beneficial to update the wording in Note 13 of the Accounts as well as Note 5 of the Group Accounts to clarify that the "fees payable in respect of additional prior year work" relate to statutory audit work and not any additional services.	Management have agreed to amend the accounts for these matters	✓

B. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements. None of these items impact upon the 2020-21 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Accounting for LOBO investments In 2018/19 the Council bought LOBO loans from banks relating to three other Council's (value £55.1m). The motivation for this was due to the Council having just bought out their own LOBOs and saw an investment opportunity, as well as being able to help their local government authorities. In the 2018-19 accounts these assets were classified as being held at amortised cost under IFRS 9. In 2019/20 the Council entered the same agreements with three further Council's (value £46.7m). The Council approved the Non-Treasury Management strategy for implementation on 1/4/19 and under this strategy the Council considered that these bonds with local authorities should be classified as being held at Fair Value through Profit and Loss (FVTPL) under IFRS 9 as they were held for trading and the Council has the intention to sell them in the short term. In the 2019-20 accounts all six of the bond were classified as FVTPL with the three items from 18-19 having been reclassified. There are very few circumstances permitted for reclassification under IFRS 9 and, following our challenge to the Council over the classification, the Council agreed that the criteria for reclassification was not met. However, the Council reviewed the classification of amortised cost in 2018/19 and determined that this was the incorrect classification. These assets have always been intended to be held for trading and the intention has always been to sell them from soon after they were acquired. Management have provided us with correspondence which demonstrates this position as well as justification for these assets meeting the required business model for classification as FVTPL under IFRS 9. We have consulted with our technical team and accept that classification as FVTPL is appropriate and are satisfied with management's rationale that the prior year classification was incorrect. The impact of the error would be to increase the value of the investments as 31/3/19 (from £55.1m to £71.0m), which would generate a gain of £15.9m in the 2018/19 CIES. The corresponding effect for 2019/20 would be reduction of £15.9m in the current gain shown in the CIES. Since the assets were already shown at FVTPL in the 2019/20 draft accounts, there is no impact on the valuation of assets for 2019/20. Since the values involved are below Performance Materiality, under IAS 8 the error should be corrected in the 2019/20 accounts instead of restating the prior year. Although the gain is effectively understated in 2018/19 and overstated in 2019/20, due to IAS 8 permitting correction in year for an immaterial error in the current year, there is no amendment required to the CIES. The only unadjusted misstatement is therefore the prior year valuation of the investments	£0	£15,841 (2018/19 SoFP)	£0	• Amount is not material, under IAS 8 the error should be corrected in year rather than restating the prior year. Thus there would be no impact on the CIES and the only unadjusted error is the 2018/19 valuation of the Investments. • No impact on 2020-21 Audit

B. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements. None of these items impact upon the 2020-21 financial statements.

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 35 land/building assets which were revalued during 2019/20 identified two instances where the incorrect build cost index was used in the valuation calculation. The index from the previous year was used in error. The result of this error is that the valuation of the two assets is overstated by £0.383m. We have extrapolated the errors across the remainder of the population and determined an extrapolated error of £2.034m which is above trivial but below performance materiality – giving us assurance that the balance is not materially misstated.	£0	(£2,034)	£0	• Amount is below performance materiality • No impact on 2020-21 Audit
As part of our procedures over the valuation of land and buildings, and testing of a sample of 35 assets by agreeing their accounting treatment it was identified that there had been errors made when the Council had been updating the fixed asset register with the new values and amending the depreciation which should have been charged to the assets. Manual corrections were completed for assets revaluations in 19-20 for an issue raised by the auditors in 18-19 regarding understating depreciation. When calculating these manual accounting entries, the Council have made an error in the postings to the CIES for the depreciation charge and the CIES for revaluation. The net amount posted to the balance sheet for depreciation is correct.	(£3,760)	£0	(£3,760)	• Amount is below performance materiality • No impact on 2020-21 Audit
Overall impact	(£19,601)	(£5,065)	(£19,601)	Total impact is below performance materiality

C. 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	£142,356	TBC
Total audit fees (excluding VAT)	£142,356	TBC

Non-audit fees for other services	Proposed fee	Final fee
Certification of Teachers Pension Return	£6,500	TBC
CFO Insights Subscription	£10,000	£10,000
Total non-audit fees (excluding VAT)	£16,500	TBC

The audit fees per note 13 reconcile to the proposed audit fee for 2020-21 stated to left of £142,356 as follows.

- Additional fees for 20-21 of £55,350 have not been included (they will be recorded in the 21-22 accounts once approved by PSAA
- 2019/20 additional fees of £24.850 and 2018/19 additional fees of £9,000 which have now been approved by PSAA are included.

PSAA wrote to s.151 officers in August 2021 to inform them of an additional £5.6m of funding being made to local authorities for the additional costs of external audit. Lancashire County Council has received £17,160 of this allocation.

In addition, the Ministry of Housing, Communities & Local Government is distributing a further £15m in relation to 2020/21 external audit fee costs. Lancashire County Council is due to receive £44,852 of this allocation.

D. Audit opinion

Our draft audit opinion is included below. 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 on financial statements

We have audited the financial statements of Lancashire County Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the 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 notes to the financial statements, including a summary of significant accounting policies and the technical annex. 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 2020/21.

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 2021 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 2020/21; and

• have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the 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.

Conclusions relating to going concern

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

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 2020/21 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

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

In auditing the financial statements, we have concluded that the Chief Executive and Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Executive and Director of Resources with respect to going concern are described in the 'Responsibilities of the Authority, Chief Executive and Director of Resources' and Those Charged with Governance for the financial statements' section of this report.

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, other than the 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.

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

D. Audit opinion

inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

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

Matters on which we are required to report by exception

Under the C

• 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.

ode of Audit Practice, we are required to report to you if:

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 in the Statement of Responsibilities, 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 2020/21, 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 Authority's and the group'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 and the group will no longer be provided.

The Audit, Risk & 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in

D. Audit opinion

the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Local Government Act 1972, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.

• We enquired of senior officers and the Audit, Risk & Governance Committee, concerning the group and Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

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

• We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls We determined that the principal risks were in relation to:

- Journals, in particular with regard to manual journals, posted after the year end date which have an impact on the Authority's financial position, as well as any journals made senior management personnel or with a blank description.

- The appropriateness of assumptions applied by management in determining significant accounting estimates, such as the valuation of property plant, equipment and investment property, the valuation of the net pension liability, the completeness and accuracy of provisions and accruals.

• Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Chief Executive and Director of Resources has in place to prevent and detect fraud;

- journal entry testing, with a focus on manual journals, posted after the year end date which have an impact on the Authority's financial position, as well as any journals made senior management personnel or with a blank description.

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property, accruals, provisions and defined benefit pensions liability valuations;

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

• These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

• The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment property, accruals, provisions, and defined benefit pensions liability valuations.

• Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's and component auditors'.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government sector

- understanding of the legal and regulatory requirements specific to the Authority and group including:

- the provisions of the applicable legislation

- guidance issued by CIPFA, LASAAC and SOLACE

- the applicable statutory provisions.

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

- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

D. Audit opinion

- The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

• For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

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

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

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

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.

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

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

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

• Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;

• Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and

• Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

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

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 Lancashire County Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report.

We are also unable to issue our certificate of completion of the audit 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. In addition, we cannot conclude the audit and issue an audit certificate until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021. We are satisfied that this work does not have a material effect on the financial statements or on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

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.

Paul Dossett, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

Date:

E. Audit letter in respect of delayed VFM work

Cllr Alan Schofield
Chair of Audit, Risk & Governance Committee
Lancashire County Council
PO Box 78
County Hall
Fishergate
Preston
Lancashire
PR1 8XJ

27 September 2021

Dear Cllr Schofield

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report in January 2022.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Paul Dossett

Partner

Grant Thornton

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