

# Lancashire County Council External Audit Plan

**Year ending 31 March 2022**

8 April 2022



# Contents



## Your key Grant Thornton team members are:

### Sarah Ironmonger

Key Audit Partner

T 0161 953 6499

E [Sarah.L.Ironmonger@uk.gt.com](mailto:Sarah.L.Ironmonger@uk.gt.com)

### Stuart Basnett

Senior Manager

T 0151 224 7232

E [Stuart.H.Basnett@uk.gt.com](mailto:Stuart.H.Basnett@uk.gt.com)

### Fay Woodmass

Assistant Manager

T 0161 953 6954

E [Fay.A.Woodmass@uk.gt.com](mailto:Fay.A.Woodmass@uk.gt.com)

Section	Page
Key matters	3
Introduction and headlines	4
Group audit scope and risk assessment	5
Significant risks identified	6
Accounting estimates and related disclosures	10
Other matters	13
Materiality	14
IT Audit Strategy	15
Value for Money Arrangements	16
Risks of significant VFM weaknesses	17
Audit logistics and team	18
Audit fees	19
Independence and non-audit services	20
Digital Audit	22
Appendix 1: Progress against prior year recommendations	24
Appendix 2: Significant improvements from the Financial Reporting Council's (FRC) quality inspection	25

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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

# Key matters

## Factors

### Council developments

We have continued to hold regular meetings with the senior finance team at the Council. During these meetings we discuss a range of key issues regarding the Council's general developments, current and projected financial performance, governance issues and regulatory oversight.

At the time of producing this Plan, the Council is projecting a year-end budget surplus of circa £23.6m. The Council has also updated its Medium Term Financial Strategy (MTFS), based upon latest funding assumptions from the Local Government Funding Settlement and the approved 2022/23 Budget.

The Latest MTFS forecasts a funding gap for 2022/23 is £21.690m, with an updated aggregated funding gap of £42.830m by 2024/25. This is a reduction of £15.730m from the previously reported MTFS in November 2021. On 17 February 2022, Full Council approved a Band D Council Tax increase for 2022-23 of 3.99% including 2% to be used for adult social care as per the new flexibilities.

The Council was subject to a peer review by the Local Government Association during 2021 which commented that "the Council's response to Covid-19 has been exemplary and that relationships with district councils have improved significantly". The Council has also been actively engaging with the Lancashire and South Cumbria Health and Care Partnership throughout the pandemic in co-ordinating a joined up response.

Progress remains ongoing in developing the "County Deal" for Lancashire. Lancashire County Council, along with the 12 district councils, Blackpool Council and Blackburn with Darwen Council have been cooperating to develop proposals covering the economy, transport, jobs, skills, and the environment, with the aim of securing a devolution deal for the county. All of the Councils have now approved the high level approach and further work is underway in developing the details of the proposal.

On 1 April 2021, the Council brought the staff and services previously provided under an outsourced contract by BT Lancashire Services back in-house. Staff were transferred back to the Council and key services such as ICT and Payroll are now provided by the Council itself.

### Changes in IT systems

We are aware that there will be changes to the Council's financial systems during 2022/23. The Council is expected to upgrade its General Ledger system to Oracle Fusion in June 2022. Whilst this is not expected to have any impact on the audit of the 2021/22 annual accounts, we have begun engaging with our internal IT specialist auditors to ensure that appropriate work is performed to provide us with the necessary assurance over the completeness and accuracy of any data migrated to new systems and the controls adopted for future audit purposes.

## Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, is set out further in our Audit Plan on page 19.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- Progress made against recommendations made in prior audits is outlined at Appendix A. As part of our assessment of the Council's arrangements for securing Value for Money we also identified a small number of improvement recommendations. These were outlined in our Annual Auditor's Report which was presented to the January Audit, Risk & Governance Committee, as well as the February Full Council Meeting. We will follow up progress against those recommendations as part of our 2021/22 VFM work and report progress in our 2021/22 Annual Auditor's Report.
- We will continue to provide you with sector updates via our Audit, Risk & Governance Committee updates.

# Introduction and headlines

## Purpose

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

## Respective responsibilities

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

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit, Risk & Governance committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

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

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

## Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of its wholly-owned subsidiary, Lancashire County Developments Limited. Further detail on the Group audit approach and significant risks is detailed on page 5.

## Significant risks

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

- Valuation of Investment Properties
- Management Override of Controls
- Valuation assumptions for net pension liability
- Valuation of land and buildings - specifically for assets where valuation movements are not in line with expectations

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

## Materiality

We have determined planning materiality to be £34.081m (PY £28.134m) for the group and £34.063m (PY £28.108m) for the Council, which equates to 1.45% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.703m (PY £1.405m).

## Value for Money arrangements

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

- Governance arrangements over key capital projects with partners where the Council is the accountable body

## Audit logistics

Our interim visit will take place in March and April and our final visit will take place between July and November. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit for 2021-22 is still to be confirmed as the PSAA approval process for 20-21 audit fees has only just been finalised. The fee for 2021-22 will be subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

# Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Lancashire County Council	Yes		<ul style="list-style-type: none"> <li>See page 6 onwards</li> </ul>	Full scope audit performed by Grant Thornton UK LLP
Lancashire County Developments Limited	Yes		<ul style="list-style-type: none"> <li>See page 6 onwards – Group risks are management override of controls and Valuation of Investment Properties</li> </ul>	<p>Assurance over specific group risks of management override of controls and Valuation of Investment Properties to be performed by the component auditor Beever &amp; Struthers.</p> <p>The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the Beever and Struthers audit documentation and meeting with appropriate members of management.</p>

## Key changes within the group:

We are not aware of any key changes in the group during 2021/22.

## Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

# Significant risks identified

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
ISA 240 revenue improper recognition risk	Group and Council	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore, we do not consider this to be a significant risk for Lancashire County Council. Since the value of income for LCDL is below the group materiality level this is also not considered a risk for the Group audit.</p>	We have rebutted this risk.
Risk of fraud related to expenditure recognition - Practice Note 10	Group and Council	<p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).</p> <p>We have considered this risk for both the Council and the Group and have determined it to be appropriate to rebut this risk based upon the limited incentive and opportunity to manipulate expenditure within the Council and due to the immaterial expenditure streams within Lancashire County Developments Limited.</p>	We have rebutted this risk.

# Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Investment Properties	Group only	<p>Investment properties are revalued annually and are held within the LCDL subsidiary. The valuations are conducted such that they are co-terminus with the group's year end reporting date.</p> <p>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.</p> <p>We therefore identified valuation of investment property as a significant risk for the Group, which was one of the most significant assessed risks of material misstatement.</p>	<p>As detailed on page 5 we have communicated our group instructions to the auditor of Lancashire County Developments Limited to provide us with sufficient assurance over the valuation of investment properties. We have requested the component auditor to perform the following responses to this risk:</p> <ul style="list-style-type: none"> <li>• Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• Evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• Write out to them and discuss with the valuer the basis on which the valuation was carried out, any changes from prior year and any significant aspects of the valuation approach</li> <li>• Challenge the information and assumptions used by the valuer to assess completeness and consistency with your understanding. Challenge and corroborate the key assumptions applied (such as yield rates etc) in the valuation calculations. Ensure the completeness and accuracy of the information relied upon by the valuer; such as rental income, floor spaces etc.</li> <li>• Assess the instructions to the valuer, the valuer report and the assumptions that underpin the valuation</li> <li>• Test revaluations made during the year to see if they had been input correctly into the asset register</li> <li>• Evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul>
Management override of controls	Group and Council	<p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> <li>• Request assurance from the component auditor in relation to the risk of management override of control within Lancashire County Developments Limited.</li> </ul>

# Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation assumptions of the pension fund net liability	Council	<p>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.</p> <p>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. We have pinpointed this risk specifically for where the valuation movements on individual assets are not in line with expectations.</p> <p>We therefore identified the assumptions used to determine the 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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update 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;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• test 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;</li> <li>• undertake 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; and</li> <li>• obtain 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.</li> </ul>



# Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Valuation of land and buildings – specifically for assets where valuation movements are not in line with expectations</p>	<p>Council</p>	<p>The Council revalues its land and buildings on a rolling three-yearly basis. 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.</p> <p>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.</p> <p>We therefore identified valuation of land and buildings as a significant risk for the Council, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• write out to them and discuss with the valuer the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• engage our own valuer to assess the instructions to the Council's valuer, the Council's valuation report and the assumptions that underpin the valuation</li> <li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register</li> <li>• evaluate 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</li> </ul>

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

## Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit, Risk & Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



# Accounting estimates and related disclosures

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings and investment properties
- Depreciation
- Year-end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Private Finance Initiative (PFI) liabilities
- Fair value estimates

## The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place, we may need to report this as a significant control deficiency, and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate, we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



### Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

### Planning enquiries

As part of our planning risk assessment procedures we have issued management with a set of questions to be completed and presented to the Audit, Risk and Governance Committee for ratification. We would appreciate a prompt response to these enquires in due course.

### Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

---

# Other matters

## Other work

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

- We read your Narrative Report, Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

## Other material balances and transactions

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

## National Issue on Infrastructure Assets

A national issue has been identified with regards to Infrastructure assets which is being discussed between audit firms, the NAO and CIPFA. The risk is where authorities have incurred expenditure on the replacement or enhancement of existing infrastructure assets, the authority may not readily be able to identify the original assets being replaced or enhanced.

In addition, some local authorities are not considering or accounting for impairments of infrastructure assets and some may not be identifying and applying appropriate useful lives to calculate depreciation. This in turn could result in an overstatement of both gross book values and accumulated depreciation, and potentially also net book values, because the authority may not write the expenditure or cumulative depreciation from the books.

As part of our audit response for 2021-22, we will perform specific audit procedures to gain an understanding of the potential impact of this issue on Lancashire County Council's Infrastructure assets.

We will consider whether this issue will impact upon our audit opinion to be issued and we also await further information from CIPFA in terms of any possible amendments to the CIPFA Code of Practice on Local Authority Accounting.

# Materiality

## The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £34.081m (PY 28.134m) for the group and £34.063m (PY £28.108m) for the Council, which equates to 1.45% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be applicable for senior officer remuneration disclosures. We will apply heightened auditor focus in this area and will request amendments be made if any errors would alter the bandings reported for any officer.

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

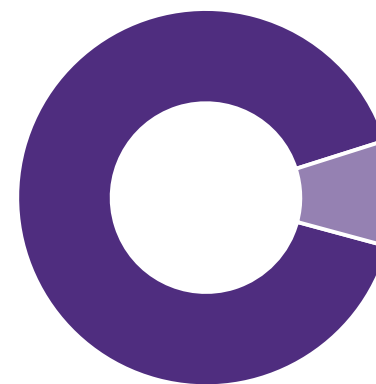
## Matters we will report to the Audit, Risk & Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Risk & Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.703m (PY £1.405m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Risk and Governance Committee to assist it in fulfilling its governance responsibilities.

## Prior year gross operating costs

£2,350.4m group  
(PY: £2,248.6m)  
£2,349.2m Council  
(PY: £2,248.6m)



■ Prior year gross operating costs

## Materiality



# IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Oracle E-Business Suite	Financial reporting	<ul style="list-style-type: none"><li>Roll-forward procedures linked to prior year detailed ITGC assessment (design and operating effectiveness)</li></ul>
Liquid Logic (ContrOCC) – Adult Social Care system	Other Expenditure/Fees & Charges	<ul style="list-style-type: none"><li>Streamlined ITGC design assessment</li></ul>

# Value for Money arrangements

## Approach to Value for Money work for 2021/22

The National Audit Office (NAO) issued updated guidance for auditors in April 2020. The Code requires 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 three specified reporting criteria. These are as set out below:



### 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





# Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risk we have identified is detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

## Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.



### Governance arrangements over key capital projects with partners where the Council is the accountable body

Lancashire County Council is the accountable body for a number of very large capital projects in which it works with partners to deliver improved outcomes. The largest of these projects is the Preston, South Ribble and Lancashire City Deal, signed in 2013, with expected investment of over £400m. Partners in this deal include Lancashire County Council, Lancashire Enterprise Partnership, Homes England, Preston City Council and South Ribble Borough Council.

Where the Council is the accountable body, there is an increased need to ensure appropriate arrangements are in place to assess, plan, monitor, implement and review the ongoing projects. If there are budget overruns, shortfalls in funding or benefits expected are not realised then there is a financial risk which the Council is exposed to.

Whilst the Council has significant reserves which may be able to absorb some of these shortfalls currently, the Medium-Term financial Strategy predicts a significant call on reserves over the next few years to 2024/25, and so it is crucial to minimise any further budget shortfalls or other risks to the Council.

Due to the complexity of these large projects, and the potential impact on the Council's finances where they are the accountable body, we have identified this area as a potential risk of significant weakness.

We will review the arrangements in place at the Council to manage the risks associated with large capital projects when working with partners and assess if there are any weaknesses in the arrangements. We will report our findings in our Auditor's Annual Report.

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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

# Audit logistics and team



## Sarah Ironmonger, Key Audit Partner



Sarah leads our relationship with you and takes overall responsibility for the delivery of a high-quality audit, ensuring the highest professional standards are maintained and a commitment to add value to the Audit, Risk & Governance Committee and the Council.

## Stuart Basnett, Audit Manager



Stuart plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues.

## Fay Woodmass, Audit Incharge



Fay assists in planning, managing and delivering the audit fieldwork, ensuring that the audit is delivered effectively and efficiently. She supervises and co-ordinates the on-site audit team.

## Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

# Audit fees

In 2018, PSAA awarded a contract of audit for Lancashire County Council to begin with effect from 2018/19. The fee agreed in the contract was £87,006. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on page 10 in relation to the updated ISA (UK) 540 (revised); Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our fee for the audit for 2021/22 is still to be confirmed as the PSAA approval process for 20-21 audit fees has only just been finalised. The fee for 2021/22 will be subject to the Council delivering a good set of financial statements and working papers.

All fee variations are subject to approval and agreement with PSAA.

	Actual Fee 2020/21	Proposed fee 2021/22
Lancashire County Council Audit	£141,357	£TBC
Total audit fees (excluding VAT)	£141,357	£TBC

The actual audit fee for 2020/21 of £141,357 has been approved by PSAA. This final fee is £2,999 less than that reported in the Audit Findings Report (£144,356) as a result of the PSAA approval process.

## Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of financial statements, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Independence and non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

## Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Agreed upon procedures – Teachers' Pension return	£7,000	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 £7,000 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
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 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.

---

# Independence and non-audit services

## Other services – Local Pensions Partnership

We also disclose to you that the commercial arm of our firm undertakes the audit of the Local Pensions Partnership, of which Lancashire County Council is one of the two founding members, each holding 50%. Details of the work performed, and the fees charged, are shown below for transparency purposes.

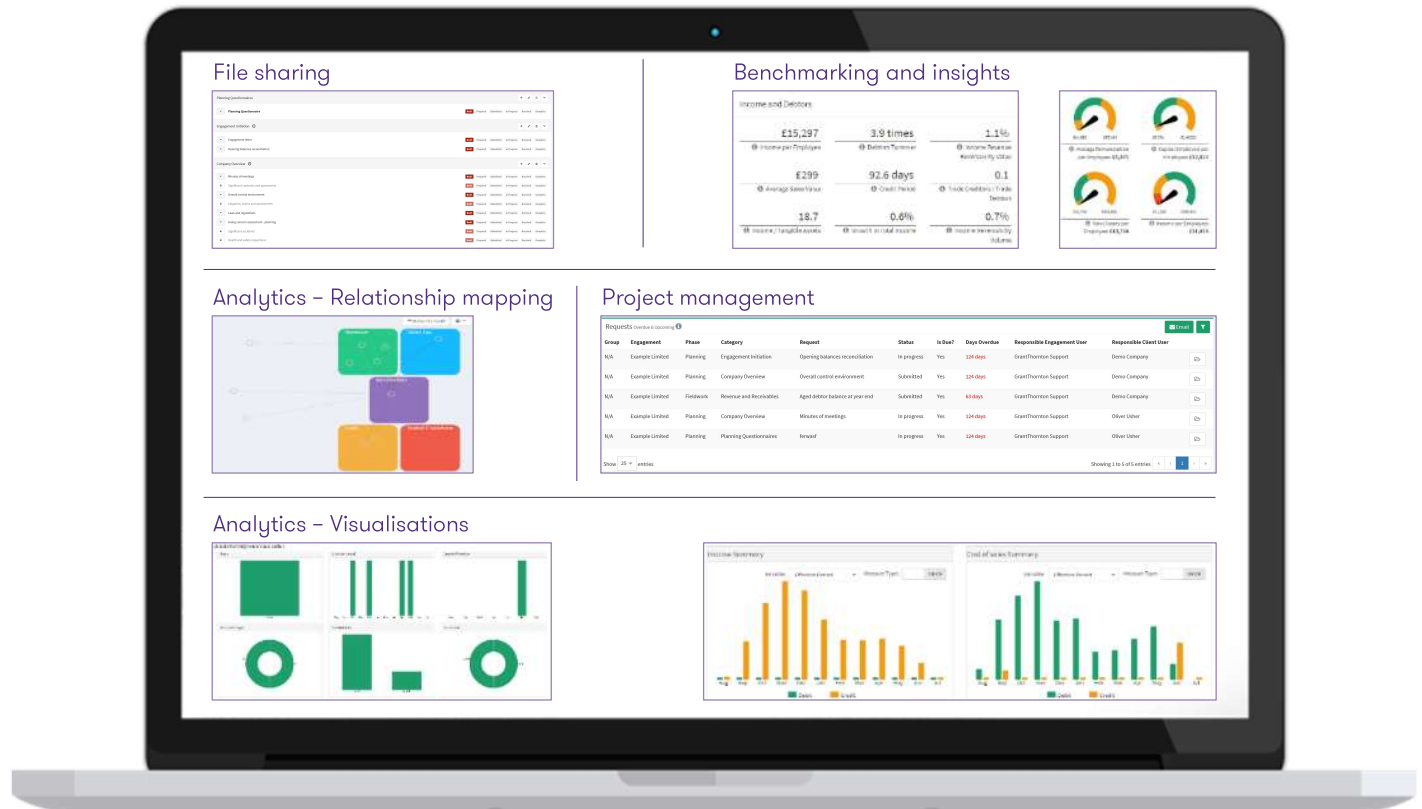
However, we are satisfied that this work has no impact on our independence for the audit of Lancashire County Council.

Service	Fees £	Threats	Safeguards
Audit related			
Local Pensions Partnership Authorised Contractual Scheme and investment funds structures audit	TBC (PY £116k)	Self-Review Self Interest	This is not considered a significant threat as the audit of Lancashire County Pension Fund and Lancashire County Council is undertaken by a completely separate team from the Public sector Services arm of the Firm, as opposed to the commercial audit team that delivers the LPP audits. There are different Engagement Leaders in place for both audits, and where we seek to place reliance on the work performed on the LPP audit, this is treated as an auditor's expert for the purposes of our work.

# Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

# Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



## Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



## File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



## Project management

- Facilitates oversight of requests
- Access to a live request list at all times



## Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

## How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

### Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

### More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

# Appendix 1: Progress against prior year audit recommendations

We identified the following issues in our 2020/21 audit of the group's financial statements, which resulted in three recommendations being reported in our 2020/21 Audit Findings Report. Progress in implementing these recommendations is detailed below. As part of our assessment of the Council's arrangements for securing Value for Money we also identified a small number of improvement recommendations. These were outlined in our Annual Auditor's Report which was presented to the January Audit, Risk & Governance Committee, as well as the February Full Council Meeting. We will follow up progress against those recommendations as part of our 2021-22 VFM work and report progress in our 2021-22 Annual Auditor's Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p><b>Oracle security and access controls</b></p> <p>Control weaknesses were identified in the security and access of the Council's Oracle system. The most significant weaknesses were:</p> <ul style="list-style-type: none"> <li>IT users self-assigning Oracle responsibilities without approval or subsequent timely removal.</li> <li>Limited evidence of appropriate restriction of Oracle database administration</li> </ul> <p>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.</p>	<p>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.</p> <p><b>Management Response</b></p> <p>As part of the Oracle Fusion Programme access controls and procedures will be reviewed as Fusion provides more granular controls to limit System Administration activities with the ability to apply controls at Job level, Duty Level and Data access level. Oracle Fusion does not allow direct access to the Oracle database and again more granular controls can be applied within Fusion to ensure that access can be applied based on the least privilege required to perform each user's role.</p>
X	<p><b>Payroll Leavers Controls</b></p> <p>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.</p> <p>The Council should ensure all staff are removed from the system within a timely basis.</p>	<p>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.</p> <p><b>Management Response</b></p> <p>Work is ongoing to improve performance in this area, following the return of the payroll service from BTLS to the County Council. Progress will continue to be reported to the Audit, Risk and Governance committee.</p>
X	<p><b>Journal Authorisation</b></p> <ul style="list-style-type: none"> <li>Manual journals within the financial ledger are input by approved personnel, but they are not subject to authorisation controls at the time of input</li> <li>The risk is that the lack of authorisation controls at the time of input creates a higher level of risk of error or manipulation.</li> </ul> <p>We recommended management review the authorisation procedures in place over journal input.</p>	<p><b>Management Response</b></p> <p>The same personnel-based controls remain in place, as does the lack of incentive for finance personnel to manipulate journals. Whilst we accept there are no preventative controls in place, there are informal detective controls in place, such as monthly financial monitoring reviews. Any journals for unusual accounting are discussed amongst the finance team and the approach agreed prior to them being posted.</p> <p>A review of users with access to the general ledger (and therefore an ability to post journals) is carried out at least annually.</p>



# Appendix 2: Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: [FRC AQR Major Local Audits October 2021](#)

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

## Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018/19	Number 2019/20	Number 2020/21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

## Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

---

# Significant improvements from the Financial Reporting Council's (FRC) quality inspection (cont.)

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

## Conclusion

Local audit plays a critical role in the way public sector audits an society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.



© 2022 Grant Thornton UK LLP.

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