

The Audit Findings for Lancashire County Council

Year ended 31 March 2022

5 October 2022



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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.

Sarah Ironmonger
For Grant Thornton UK LLP
Date : 5 October 2022

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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.

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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 2022 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 remotely during July-November. Our findings are summarised on pages 4 to 27. Whilst our audit work remains ongoing, to date, we have identified one adjustment to the financial statements that has resulted in an adjustment to the Group's Comprehensive Income and Expenditure Statement. This adjustment is due to information not being available at the time the draft accounts were prepared. There is no impact on the "single entity" accounts of the Council.

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, there are two outstanding matters that need resolution before we are able to conclude whether our audit report is unmodified or not. The two matters are; valuation of land and buildings and the carrying amounts of infrastructure assets. For the valuation of land and buildings, we are currently in discussion with management and our audit technical team to determine the most appropriate way to address the difference identified. For infrastructure assets there is a sector wide solution being discussed which we will update you on as the matter progresses.

We intend to bring an updated Audit Findings report to the January Audit, Risk & Governance Committee, at which time we anticipate being able to provide further details on the proposed audit opinion.

Below are the key audit work still to be completed:

- Completion of our sample testing for land & buildings valuations, and challenge of the Council's valuer, in particular with regards to ensuring the carrying value of land and buildings included on the accounts are not materially different to their current value had they been revalued as at 31/3/22
- Completion of our testing over risk-assessed journals
- Completion of our sample testing on income, expenditure and payroll
- 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;
- 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;
- Finalisation and agreement of responses to the "hot review" of the accounts
- Resolution of the national issue regarding infrastructure assets
- 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.

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 G to this report. We expect to issue our Auditor's Annual Report by January 2023. 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 identified a risk in respect of the governance arrangements over key capital projects where the Council is the accountable body. Our work on this risk remains ongoing as detailed on page 24 of this report.

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 2021/22 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 Whole of Government Accounts (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

As outlined in more detail on page 13, there is an ongoing national issue in relation to the historic accounting for infrastructure assets. We are currently awaiting further information from CIPFA on whether a statutory override will be issued to address the issue.

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 components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that 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 25 April 2022.

Conclusion

We are still in the process of completing our audit of your financial statements. There are two outstanding matters that need resolution before we are able to propose what type of audit report we will issue. The two matters are; valuation of land and buildings and the carrying amounts of infrastructure assets. For the valuation of land and buildings, we are currently in discussion with management and our audit technical team to determine the most appropriate way to address the difference identified. For infrastructure assets there is a sector wide solution being discussed which we will update you on as the matter progresses.

We intend to bring an updated Audit Findings report to the January Audit, Risk & Governance Committee, at which time we anticipate being able to provide further details on the proposed audit opinion.

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 25 April 2022.

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

	Group Amount (£m)	Council Amount (£m)	Qualitative factors considered
Materiality for the financial statements	34.081	34.063	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 1.45% of prior year gross expenditure
Performance materiality	25.560	25.547	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	1.703	1.703	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 (Group & Council)

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 substantive testing of the journals posted by management, based upon a risk-scoring method remains on-going, our audit work completed to date has not identified any evidence of inappropriate management override of controls. As with previous years, the Council does not have authorisation controls in place over journals – refer to page 30 for further details.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

ISA 240 revenue improper recognition risk (Group & Council)

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. Since the value of income for LCDL is below the group materiality level this is also not considered a risk for the Group audit.

As detailed in our Audit Plan, which was communicated to the Audit, Risk & Governance Committee on 25 April 2022, we have rebutted this risk.

Our procedures which we have performed on the Group and Council's financial statements have not identified any issues which would cause us to alter this assessment.

Risk of fraud related to expenditure recognition - Practice Note 10 (Group & Council)

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).

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.

As detailed in our Audit Plan, which was communicated to the Audit, Risk & Governance Committee on 25 April 2022, we have rebutted this risk.

Our procedures which we have performed on the Group and Council's financial statements have not identified any issues which would cause us to alter this assessment.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation assumptions of the pension fund net liability (Council Only)

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 (£1,148m in the Council's balance sheet) 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.

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 Council's pension fund net liability as a significant risk.

Commentary

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 2022 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 - Significant risks

Risks identified in our Audit Plan

Valuation of land and buildings – specifically for assets where valuation movements are not in line with expectations (Council Only)

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.

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 as a significant risk for the Council, which was one of the most significant assessed risks of material misstatement.

Commentary

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 2022 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 fixed asset system
- 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.

Our substantive testing of a sample of the Council's land and buildings valuations remains ongoing.

In line with CIPFA guidance, the valuation date used by the valuer was 1 April 2021. Management also revalue all assets over a three year basis. We have challenged management's assessment that the valuation of assets not valued during 2021-22, as well as those valued on 1 April 2021, are not materially different to their valuation if they had all been valued as at 31 March 2022. Management have applied indices to uplift all asset values to a projected valuation as at 31/3/22. Our initial work assessing the valuation of assets within the Council's accounts compared to the valuation had all assets had been valued as at 31 March 2022 identified a significant material difference. We are currently in discussion with management and our audit technical team to determine the most appropriate way to address the difference identified.

In light of current levels of inflation and the impact this has on build cost indices, the Council may wish to reconsider the current timing of valuations and moving the valuation date closer to the year-end to reduce the potential for material differences between the carrying value and current value of assets.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of Investment Properties (Group Only)

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.

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.

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.

Commentary

As detailed on page 12, we 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 requested the component auditor to perform the following responses to this risk:

- Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- Evaluate the competence, capabilities and objectivity of the valuation expert
- 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
- 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.
- Assess the instructions to the valuer, the valuer report and the assumptions that underpin the valuation
- Test revaluations made during the year to see if they had been input correctly into the asset register
- 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.

Our work on this risk remains ongoing. We are reviewing the work performed by the component auditor to gain assurance over the valuation of these assets and considered the size of the investment property portfolio. The total value of investment properties at £86.2m would need to be misstated by 40% for there to be material error in the group accounts.

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 are reviewing 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. Further detail on specific work performed against these risks can be found on pages 7 and 11.	<p>The consolidation of Lancashire County Developments Limited has been agreed through to the supporting records of the Council and to the audited company accounts.</p> <p>We have received confirmation from the component auditor that there are no further issues that should be reflected in the group accounts.</p> <p>Our work on these risks remains ongoing. We are reviewing the work performed by the component auditor to gain assurance over the work performed on the risk of management override of controls as well as that performed on the valuation of the two investment property assets. We considered the size of the investment property portfolio, with the total value of investment properties at £86.2m, the balance would need to be misstated by 40% for there to be material error in the group accounts.</p>

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>Valuation of Infrastructure Assets</p> <ul style="list-style-type: none">The Code requires infrastructure assets to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. In addition, the Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. Lancashire County Council has material infrastructure assets, at both a gross and net value basis, there is therefore a potential risk of material misstatement related to the infrastructure balance.	<p>CIPFA has established a Task and Finish Group to address an issue regarding the derecognition of parts of infrastructure assets following 'replacement' expenditure.</p> <p>CIPFA is currently considering the approval of an update to the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) following the outcomes of the consultation on the removal of the need to report gross cost and accumulated depreciation.</p> <p>CIPFA is working with the government on the possibility of statutory prescription regarding the transaction for the derecognition of parts of infrastructure assets that have been replaced or restored. CIPFA understands that the Department for Levelling Up, Housing and Communities is considering legislative prescription to support local authorities. Government will update on the position in the near future.</p>	<p>We have been discussing this matter with management and keeping them informed of national updates when we receive them. We have sent management a number of questions linked to Infrastructure assets to further understand the way in which they have been accounted for historically at the Council.</p> <p>At this time we believe that waiting for confirmation of the introduction of a statutory override is the best option for resolving this issue.</p>

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 – £1,986.9m	<p>Other land and buildings comprises £1,626m 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 (EUUV) at year end.</p> <p>The Council has engaged its internal valuation team to complete the valuation of the majority of properties as at 1 April 2021 on a three yearly cyclical basis. To determine that the carrying value of those assets valued at 1 April 2021 (and also assets not valued in 21/22) 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.</p> <p>Circa 50% of total assets (by value) were revalued during 2021/22. The valuation of properties valued by the valuer has resulted in a net decrease of £38m 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 2021, based on the market review provided by the valuer as at 31 March 2022, to determine whether there has been a material change in the total value of these properties.</p> <p>The total year end valuation of other land and buildings was £1,986.9m (2019/20 £2,026.1m).</p>	<ul style="list-style-type: none"> 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 challenging whether the carrying value of assets is not materially different to the current value as at 31 March 2022, 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. Our initial work assessing the valuation of assets within the Council's accounts compared to the valuation had all assets had been valued as at 31 March 2022 identified a significant material difference. We are currently in discussion with management and our audit technical team to determine the most appropriate way to address the difference identified. We are unable to determine an assessment of this estimate until we have obtained further information and assurance over the difference between the carrying value of assets and their current value as at 31 March 2022. 	TBC

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
Investment Property Valuation - £86.2m	<p>The Council's subsidiary company, Lancashire County Developments Limited, has engaged Cushman & Wakefield to complete the valuation of properties as at 31 March 2022. Only two properties make up the portfolio and both were revalued as at 31/3/22.</p> <p>The fair value of the properties has been primarily derived using comparable recent market transactions on arm's length terms. Where the market approach is used, properties are valued by reference to market-based evidence using observed prices for recent market transactions for comparable properties.</p> <p>The total year end valuation of investment property was £86.2m, a net increase of £16.1m from 2020/21 (£70.1m).</p>	<p>As part of our group audit we have communicated our group instructions with the auditor of LCDL, Beever & Struthers LLP. We have discussed the programme of work required for us to gain assurance over the valuation of the investment properties.</p> <p>As outlined on page 11, this work remains ongoing. No issues have been identified to date. The total value of investment properties at £86.2m would need to be misstated by 40% for there to be material error in the group accounts.</p>	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 - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £1,148.2m	<p>The Council's total net pension liability at 31 March 2022 is £1,148.2m (PY £1,516.2m) comprising the Lancashire County Local Government pension scheme and unfunded defined benefit pension scheme obligations.</p> <p>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.</p> <p>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.</p> <p>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 £368m net decrease in Net Liability Related to Defined Benefit Pension Scheme during 2021-22.</p>	<ul style="list-style-type: none"> 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 2021/22 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: <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.8%</td> <td>2.7 - 2.8%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>3.3%</td> <td>3% - 3.5%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>4.8%</td> <td>4.25% - 5%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45/65</td> <td>Pensioners: 22.3 years Non-pensioners: 23.7 years</td> <td>20.7 - 23.3 22.2 - 24.8</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45/65</td> <td>Pensioners: 25.0 years Non-pensioners: 26.8 years</td> <td>23.8 – 25.5 25.7 – 27.5</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> 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 2021/22 to the valuation method <p>We are satisfied with the reasonableness of estimate of the net pension liability</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.8%	2.7 - 2.8%	●	Pension increase rate	3.3%	3% - 3.5%	●	Salary growth	4.8%	4.25% - 5%	●	Life expectancy – Males currently aged 45/65	Pensioners: 22.3 years Non-pensioners: 23.7 years	20.7 - 23.3 22.2 - 24.8	●	Life expectancy – Females currently aged 45/65	Pensioners: 25.0 years Non-pensioners: 26.8 years	23.8 – 25.5 25.7 – 27.5	●	Light Purple
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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 - £21.8m	<p>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.</p> <p>The year end MRP charge was £21.8m, a net increase of £4.1m from 2020/21.</p>	<ul style="list-style-type: none"> 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 its 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 (1.81%) and MRP as a % of the Capital Financing Requirement (1.91%) 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 level of MRP to be charged to the General Fund will increase significantly when the reduction for the previous overpayment ends during 2031/32. Members should be aware that this will create an additional funding pressure for the Council. The additional cost is estimated to be £3.8m in 2031/32, £11.3m in 2032/33 and then increasing yearly up to 2056/57. 	Blue

Assessment

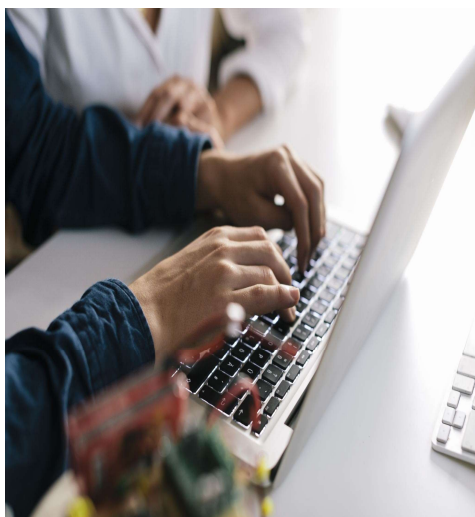
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- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's 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. It will be included as a separate item in the Audit, Risk & Governance Committee papers at the January 2023 Meeting.

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. We are still awaiting responses for a small number of school bank accounts.
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	<p>All information and explanations requested from management have provided by management to date with no issues. The financial statements were published on 8 June 2022, more than two months in advance of the statutory deadline. The financial statements were prepared to a good standard and working papers were detailed and clear to understand.</p> <p>The complexity, volume of data held and nature of the reporting available within the Council's financial system means that the audit takes longer to complete and adds to the resource inputs required as it is not possible to obtain a full General Ledger and transaction level detail. This means that we need to request numerous breakdowns of ledger codes in order to obtain data at a single transaction line level of data in order to then select a sample of transactions to substantively test.</p> <p>It is understood that the Council's new (Oracle Fusion) ledger, due to go live in November 2022, will be capable of providing reports at transaction level. However, since the new ledger is due to go live part way through the 2022-23 financial year, the above process will still be required for all 22/23 transactions posted to the current general ledger.</p>

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	<p>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.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none">• 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. <p>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:</p> <ul style="list-style-type: none">• 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. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none">• 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	<p>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.</p> <p>No inconsistencies have been identified to date from our reviews of other information. We plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none">• 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. <p>We have nothing to report on these matters.</p>



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	<p>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.</p> <p>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.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2021/22 audit of Lancashire County Council in the audit report, 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.</p>

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its 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 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 expect to issue our Auditor's Annual Report in January 2023. 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 identified the risk set out in the table below. Our work on this risk remains ongoing, we have nothing further to report at this stage.

Risk of significant weakness

Work performed to date

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

Our work on this risk remains ongoing, we have nothing further to report at this stage. We expect to complete our work on assessing the Council's arrangements for securing value for money in the use of its resources during October – December 2022.

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.

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

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 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

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 which were charged from the beginning of the financial year to date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	£7,500	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 £7,500 in comparison to the total fee for the audit of £145,994 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)	<p>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.</p> <p>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.</p> <p>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 £145,994 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.</p> <p>These factors all mitigate the perceived self-interest threat to an acceptable level.</p>

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.

4. Independence and ethics

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 with a 50% equity holding of the ordinary shares of the company. Details of the work performed and our assessment of our independence, are shown below. We are satisfied that this work has no impact on our independence for the audit of Lancashire County Council.

Service	Threats	Safeguards
Audit related		
Local Pensions Partnership Authorised Contractual Scheme and investment funds structures audit	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. All of the work performed by Grant Thornton is for audit related services. LPP is not consolidated into the Group Accounts on which we are issuing an opinion due to an assessment of the 50% share of the Assets, Liabilities, Income & Expenditure of the Company not being material to the Group.

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. These findings were also reported in our 2020/21 Audit Findings report as the items remains open.

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	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Oracle security and access controls</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">IT users self-assigning Oracle responsibilities without approval or subsequent timely removal.Limited evidence of appropriate restriction of Oracle database administration <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 2020-21 financial statements.</p>	<p>We have performed a similar review of the IT General Controls within the Council as part of our 2021-22 audit and the two items detailed in the prior year have now been remediated and are no longer considered significant deficiencies.</p>
X	<p>Payroll Leavers Controls</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 2021-22 audit have found similar issues still remain and that there can be a significant time lag in leavers being removed from the payroll system, with the time lag consistently appears to be around 3-6 months.</p> <p>Management Response</p> <p>Performance in this area continues to be monitored and reports provided to the Audit, Risk and Governance committee on progress.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

A. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Journal Authorisation</p> <ul style="list-style-type: none">Manual journals within the financial ledger are input by approved personnel, but they are not subject to authorisation controls at the time of inputThe risk is that the lack of authorisation controls at the time of input creates a higher level of risk of error or manipulation. <p>We recommended management review the authorisation procedures in place over journal input.</p>	<p>Management reviewed the processes in place in the prior year and commented that 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, management consider that suitable alternative arrangements are in place.</p> <p>Audit Response</p> <p>As users with access to Oracle can post and approve their own journals, this is required to be recognised as a control deficiency. In response to this deficiency, we increased the overall risk rating for the Fund within our Journal risk assessment from low risk to medium. The impact of this is that it increased the minimum number of journals posted by management which we are required to test. The results of this testing are detailed on page 7.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

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

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Group Comprehensive Income and Expenditure Statement £'000	Group Statement of Financial Position £' 000	Group Impact on total net expenditure £'000
Group Accounts Tax Expense The taxation expense in the LCDL accounts for 2022 is £5.4m. The draft group financial statements did not account for this expense as the figure wasn't known when the Council published the draft accounts. The deferred taxation figure in the Group SoFP has also increased by this amount to £11.8m. There is no impact on the Council, single entity, accounts.	-£5.4m	-£5.4m	-£5.4m
Overall impact	-£5.4m	-£5.4m	-£5.4m

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
Presentation & disclosure amendments As a result of our manager/EL/Review partner and technical team hot review of the accounts, a number of amendments have been made to improve the disclosures within the accounts. All of these amendments relate to minor improvements of the disclosure notes to improve the accuracy and readability of the accounts.	Management has amended the accounts for the issues we identified.	✓

B. Audit Adjustments

Impact of unadjusted misstatements

To date, there have been no adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements.

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 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
<p>Land & Buildings Valuation Errors</p> <p>Our audit procedures identified two assets, both relating, to land where there had been a significant change in value (£3.8m increase). On further investigation this was due to human error when inputting the updated asset values into the asset register and as such the value of these two items was overstated by £3.8m. We requested management conduct further analysis to determine if there were any further assets impacted by this error.</p> <p>Management's analysis concluded that the error impacted upon 7 assets with two land assets being overstated by £3.8m and five buildings assets being understated by £4.4m. As a result the overall quantification actually reduced the total impact on the Statement of Financial Position due to the errors 'netting off' against each other to create a net error of £0.563m.</p> <p>Since the error is not material, and the net impact is in fact trivial, the accounts have not been updated to reflect these valuation errors.</p> <p>Management has stated that this error would usually have been identified through the "large valuation movement" exceptions review they perform on all assets with valuation movements in excess of £200k and/or 50%. However, the formula was overwritten for these items and they were not identified. Management has confirmed that this has been addressed for future periods with the formula column now being protected.</p>	£0	£0.563m	£0	Error is not material
Overall impact	£0	£0.563m	£0	

C. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£145,994	TBC
Total audit fees (excluding VAT)	£145,994	TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Teachers Pension Return	£7,500	TBC
CFO Insights Subscription	£10,000	£10,000
Total non-audit fees (excluding VAT)	£17,500	TBC

Audit Fee per Note 13 of the financial statements is £161k. The audit fee has been calculated based upon:

- £93k in respect of the PSAA scale fee for 2021-22
- £7k in respect of Teachers Pensions
- £10k in respect of CFO insights
- £68k in respect of prior year additional fees, which have now been approved by PSAA and paid.
- £17k reduction as result of an audit fee reimbursement from PSAA

The non-scale fee element of the 2021-22 proposed fee (£53k) which be included in the 2022-23 accounts once it has been approved by PSAA.

C. Fees

Detailed below is the reconciliation of the scale fee, set by PSAA in 2018, and the final audit fee to be charged for the financial year which reflects the increased scope and challenge required to be performed in our 2021/22 audit.

Scale fee published by PSAA (2020-21 scale fee used for consistency)	£87,006
<i>Increases to scale fee for additional work not considered when the scale fee was originally set by PSAA</i>	
Raising the bar – increased FRC Challenge	£6,250
Additional work in respect of the Group Audit	£3,000
Reduced Materiality	£3,125
Enhanced audit procedures for Property, Plant and Equipment	£5,438
Property Plant and Equipment – External Auditor Expert	£2,500
Enhanced audit procedures for Pensions	£4,375
Additional work on Value for Money (VfM) under new NAO Code	£19,000
Increased audit requirements of revised ISAs 540	£3,800
Additional work on journals/grants	£5,000
FRC Response – Additional review, EQCR Review, Hot review	£1,500
Additional work in respect of national issue on accounting for Infrastructure assets	£5,000
Proposed Audit Fee	£145,994

D. Audit opinion

Our work is still ongoing, there are two outstanding matters that need resolution before we are able to conclude whether our audit report is unmodified or not. The two matters are; valuation of land and buildings and the carrying amounts of infrastructure assets. For the valuation of land and buildings, we are currently in discussion with management and our audit technical team to determine the most appropriate way to address the difference identified. For infrastructure assets there is a sector wide solution being discussed which we will update you on as the matter progresses.

We intend to bring an updated Audit Findings report to the January Audit, Risk & Governance Committee, at which time we anticipate being able to provide further details on the proposed audit opinion.

E. Audit letter in respect of delayed VFM work

Cllr Alan Schofield
Chair of Audit, Risk & Governance Committee
Lancashire County Council
PO Box 78
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30 September 2022

Dear Cllr Schofield

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest.

Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our 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 2023.

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

Yours faithfully

Sarah Ironmonger
Partner



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