The Audit Findings for Lancashire County Council

Year ended 31 March 2022

18 January 2023

Contents

Your key Grant Thornton team members are:

Sarah Ironmonger
Key Audit Partner
E Sarah.L.Ironmonger@uk.gt.com

Stuart Basnett
Senior Manager
E Stuart.H.Basnett@uk.gt.com

Daniel Buck
Assistant Manager
E Dan.J.Buck@uk.gt.com

The Key Audit Partner(s) for Authority's Material Subsidiary is:
Key Audit Partner – Mark Bradley
Firm : Beever & Struthers LLP

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

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

Sarah Ironmonger
For Grant Thornton UK LLP
Date : 18 January 2023

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 was completed remotely during July to January. Our findings are summarised on pages 4 to 27. Whilst our audit work remains ongoing, to date, the Council has made 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. As a result of the additional valuations performed on Land and Buildings, detailed below, there has been significant amendments to the accounts to reflect the updated valuations – see Appendix B.

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 almost complete, we are in the finalisation and review stage which we are aiming to have been completed by the time of the Audit, Risk & Governance Committee on 30 January 2023. We will provide a verbal update at the Committee. Our timetable for completion is subject to the remaining information being provided to us by management. The capacity of the finance team has been reduced as a result of the implementation of the new financial system.

We are still finalising the required work in response to the national issue on the accounting for infrastructure assets, with the statutory override coming into effect from 25 December 2022 this issue is expected to be resolved.

In response to the Valuation of land and buildings, management have requested the valuer perform additional valuations as at 31 March 2022 and have prepared an updated indexation analysis which now shows the valuation of assets not revalued is not materially different. We have reviewed and challenged management on this updated assessment and reviewed and tested a sample of assets which have been revalued. We are still finalising this work at the time of submission of papers. Based on the work performed to date, there are no matters of which we are aware that would require modification of our audit opinion [Appendix D] or material changes to the financial statements, however our final opinion issued is subject to the satisfactory completion of the following outstanding matters;

- Finalisation of the challenge to management over the additional land and building valuations undertaken and the assessment that the valuation of the remaining assets not valued is not material.
- Finalisation of the work performed on the revised Infrastructure disclosures
- Final resolution of sample testing for a small number of items
- Final reviews of the audit file by the Engagement Leader and Review Partner;
- Finalisation and agreement of responses to the "hot review" of the accounts
- 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

Subject to the resolution of the final few matters above, we intend to issue and unqualified audit report.

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 nearly completed our VFM work. A summary of the work is included on page 23 of this report, and our detailed commentary is set out in the separate Auditor's Annual Report, which is being drafted and is in the final review stage. Our findings to date have not identified any risks of significant weakness within the Council's arrangements.
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. We can not certify the closure of the audit until we have completed our consideration of matters brought to our attention by the Council in 2013. We are continuing to monitor developments with the ongoing Police investigation. Once the Police investigation is concluded, and we have had an opportunity to consider the outcome, we will assess the implications for our audit of the Council.
Significant Matters	We have not encountered any significant difficulties or identified any significant matters arising during our audit.

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

Our work is almost complete, we are in the finalisation and review stage which we are aiming to have been completed by the time of the Audit, Risk & Governance Committee on 30 January 2023. We will provide a verbal update at the Committee. Our timetable for completion is subject to the remaining information being provided to us by management. The capacity of the finance team has been reduced as a result of the implementation of the new financial system.

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 is complete and we have 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	Commentary
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.	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. **We have not identified any significant issues in relation to the 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	Commentary
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.	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. We have confirmed that the external valuer appointed is independent of ourselves and the Council • 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. 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. As such management engaged the internal valuer to undertake additional valuations as at 31 March 2022. As a result of the additional valuations performed, the net book value of Land & Buildings as at 31 March 2022 increased by £76.8m to £2,063.8m. This has been included as an adjusted misstatement in Appendix B. Management also updated their assessment of the remaining assets which have not been revalued. Management's assessment is that the difference between the carrying value and potential current value as at the balance sheet date for these assets is £22.2m. This is below our materiality threshold. We are currently finalising our challenge and testing over the revised valuations and assessment of the assets not revalued – however we have not identified any significant issues to date. We have raised a recommendation to management in relation to the valuation date and processes to identify material differences - See Appendix A. Also see Appendix B for the additional audit fees charged in relation to addressing this issue.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
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.	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. We have reviewed 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. All investment properties held by the Group were valued as at 31 March 2022, and so are not affected by the issues identified in relation to the valuation of land and buildings detailed on page 10. We are satisfied that there are no significant matters which require reporting to those charged with governance, as a result of the procedures performed.

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.	The consolidation of Lancashire County Developments Limited has been agreed through to the supporting records of the Council and to the audited company accounts. We have received confirmation from the component auditor that there are no further issues that should be reflected in the group accounts. The component auditor has provided us with sufficient assurance from their procedures performed in relation to the risk of management override of controls. We have reviewed 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. We are satisfied that there are no significant matters which require reporting to those charged with governance, as a result of the procedures performed.

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
Valuation of Infrastructure Assets • 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.	CIPFA established a Task and Finish Group to address an issue regarding the derecognition of parts of infrastructure assets following 'replacement' expenditure. CIPFA worked 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. The statutory instrument gained royal assent on 25 December 2022. CIPFA has also approved 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.	We have reviewed the changes which have been implemented in the CIPFA Code as a result of the statutory instrument. Management are amending the accounts to reflect the necessary disclosures required in the Code. We have challenged management on the useful economic lives applied to componentised infrastructure assets. Whilst we are currently still finalising our review of this area we have not identified any evidence to date to suggest that the depreciation charge for 2021-22 is materially not correct. We still need to finalise our review of the useful lives proposed and review the amended disclosures in relation to the accounting for infrastructure however we are not anticipating there to be any further issues.

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 (draft accounts) £2,063.8 (revised accounts)	Other land and buildings comprises £1,626m (per draft accounts) of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged 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. 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. The total year end valuation of other land and buildings was £1,986.9m (2019/20 £2,026.1m).	• 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. • As such management engaged the internal valuer to undertake additional valuations as at 31 March 2022. • As a result of the additional valuations performed, the net book value of Land & Buildings as at 31 March 2022 increased by £76.8m to £2,063.8m. • Management also updated their assessment of the remaining assets which have not been revalued. Management's assessment is that the difference between the carrying value and potential current value as at the balance sheet date for these assets is £22.2m. This is below our materiality threshold. • We are currently finalising our challenge and testing over the revised valuations and assessment of the assets not revalued – however we have not identified any significant issues to date.	Light Purple

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £86.2m	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. 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. The total year end valuation of investment property was £86.2m, a net increase of £16.1m from 2020/21 (£70.1m).	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. As outlined on page 11, we have reviewed 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. We are satisfied that there are no significant matters which require reporting to those charged with governance, as a result of the procedures performed.	Light Purple
Provisions - £50.8m	The Council has a range of provisions on its balance sheet which totalled £50.8m at 31 March 2022. The largest provisions held relate to Insurance which total £34.1m. Management engage the assistance of an expert to determine the appropriate level of provision to recognise. The expert was commissioned in September 2021 and their estimated value of the provision as at 31 March 2022 was £47m. The Council agree to the sufficiency of the provision but noted that not all claims will be settled in one financial year and that of c.800 claims they reviewed, 35% were settled for less than the original estimate and so agreed to increase the provision incrementally. As such management believe it prudent to provide for circa 70% of the estimate made by Gallaghers now and increase the provision value year-on-year.	Per CIPFA Code 8.2.2.15 "The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the reporting date. The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision." Based on the above extract from the CIFPA code, it is our judgment that the provision is currently under provided for. Whilst we understand management's position in terms of the timing of the settlement of claims and that claims are being settled for less than provided, an expert was engaged to assist in valuing the liability as at 31/3/22 and currently the value provided for is £13m less than the expected obligation as at 31/3/22 - this difference however is not material so we have assurance that the estimate is materially correct.	Blue

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	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. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed at 31 March 2019, utilising key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. The Council has seen a £368m net decrease in Net Liability Related to Defined Benefit Pension Scheme during 2021-22.	• 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:	Light Purple

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	●

- 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

We are satisfied with the reasonableness of estimate of the net pension liability

Assessment

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

2. Financial Statements - key judgements and estimates

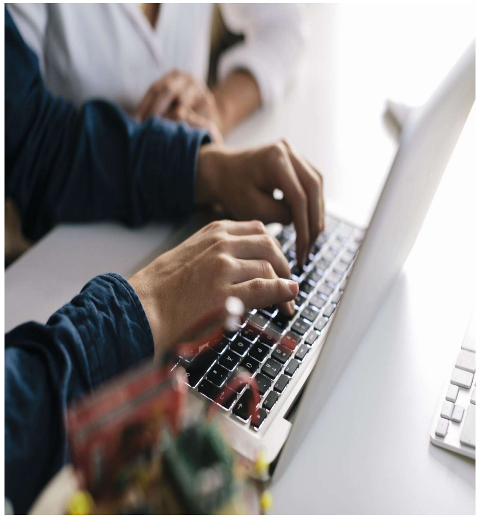
Significant judgement/ estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £21.8m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £21.8m, a net increase of £4.1m from 2020/21.	• 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
LOBO Investments held at FVTPL - £24.1m	In 2018/19 and 2019/20 the Council bought LOBO loans from banks relating to other Councils. The motivation for this was due to the Council having just bought out their own LOBOs and saw an investment opportunity, as well as being able to help their local government authorities. These investments are classified as being held at Fair Value through Profit and Loss (FVTPL) under IFRS 9 as they were held for trading and the Council has the intention to sell them in the short term. As such any gains or losses on these investments are recognised in the General Fund. Management use their Treasury Management advisor to assist with determining the key inputs and assumptions to calculate their value as at 31 March 20212 Five of the six investments were sold during the year for £92m. This sale generated a realised loss of £1.1m, after adjustments for revaluations in fair values transferred to reserves etc.	• We reviewed the basis of the classification of the investments in detail in the 2019-20 audit and were satisfied that they were appropriately held at Fair Value Through Profit and Loss. There has been no change to this assessment for 2021-22. • We engaged our own internal valuations team to review the key appropriateness of the key assumptions as well as to perform their own valuation of the investments. Management did not make any amendments to the key assumption, the "investment spread" assumption for 2021-22 . The spread applied in 2021-22 was 115bps (115bps in 2020-21). Our valuation expert considered that a spread of up to 165bps may be appropriate due to the impact of the Russian invasion of Ukraine and a review of market data for other comparable bonds. Management indicated that they would not expect a movement as much as 50bps as some of the increase of comparable bonds is due to entity-specific factors which do not apply to the LOBO counterparty, which we considered to be reasonable. • Our valuations team produced their calculations based on two different "investment spreads" to assess the sensitivity of the valuation. Using the same spread as applied by management (115bps) resulted in a potential valuation difference of between -£1.1m and £0.55m, which is below our triviality level. Using 165bps resulted in valuation difference of between -£3.2m and -£1.2m. All of these valuation differences are below our materially threshold so we have sufficient assurance that the valuation is materially correct. • The overall findings were that the key assumptions applied in the valuation calculation were reasonable and that the valuation of the LOBO investments was materially correct.	Light Purple

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	As noted in Appendix B there have been some additional disclosures made in respect of the Council's subsidiary organisations, which are required to be recognised as related parties.
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. All expected responses were received.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management have provided by management to date with no issues. 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. 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. 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.

2. Financial Statements - other communication requirements

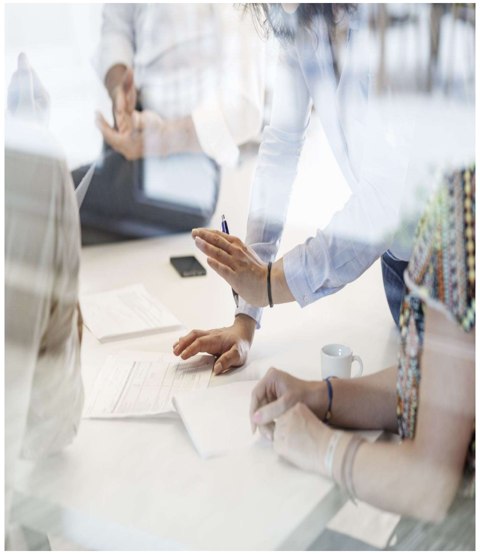
Our responsibility

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

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

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified to date from our reviews of other information. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work will commence on the completion of the financial statements audit.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of Lancashire County Council in the audit report. We can not certify the closure of the audit until we have completed our consideration of matters brought to our attention by the Council in 2013. We are continuing to monitor developments with the ongoing Police investigation. Once the Police investigation is concluded, and we have had an opportunity to consider the outcome, we will assess the implications for our audit of the Council.

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

3. VFM - our procedures and conclusions

We have nearly completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is currently being finalised before it will be published.

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. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions to date.

Risk of significant weakness	Procedures undertaken	Conclusion
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.	- Held discussions with management to discuss the current governance and monitoring arrangements in place - Reviewed the latest financial modelling for the Preston, South Ribble and Lancashire City Deal - Reviewed Cabinet Committee Meeting papers and LEP Board Meeting Papers relating to the governance and financial monitoring of the scheme	We are still finalising our work on this risk area. To date we have not identified any significant weaknesses. Further information on our conclusions will be included 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)

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)	This is an on-line software service that enables users to rapidly analyse data sets. CFO Insights is a Grant Thornton and CIPFA collaboration giving instant access to financial performance, service outcomes and socio-economic indicators for local authorities. It is the responsibility of management to interpret the information. The scope of our service does not include making decisions on behalf of management or recommending or suggesting a particular course of action. The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £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.

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. Action Plan

We have identified one recommendation for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
●	**Material difference identified between the carrying value and current value of Land & Buildings** As detailed on page 10 of our report we are required to perform audit procedures in relation to challenging whether the carrying value of assets is materially different to the current value as at 31 March 2022. 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. This was in part due to the large movement in market indices during the year affecting all land and building assets, since the valuation date of assets valued in 2021-22 was 1 April 2021. As such management engaged the internal valuer to undertake additional valuations as at 31 March 2022. As a result of the additional valuations performed, the net book value of Land & Buildings as at 31 March 2022 increased by £76.8m to £2,063.8m. This has been included as an adjusted misstatement in Appendix B. Management also updated their assessment of the remaining assets which have not been revalued. Management's assessment is that the difference between the carrying value and potential current value as at the balance sheet date for these assets is £22.2m. This is below our materiality threshold.	The valuation of Land & Buildings is a significant risk for the audit as a result of the assumptions applied in the valuation calculation and the value of the assets held. Current economic conditions of high inflation could lead sustained, or even increased, Build Cost indices which are a key component in the valuation of a large proportion of the Council's Land & Buildings, further increasing the risk of significant movements in asset valuations. The Council also currently revalues its asset base (except for Group Investment Properties) as at 1 April, which increases its exposure to movements in Build Cost Indices during the year. These two factors combined increase the risk of the carrying value of assets differing significantly to their current value. We recommend that management reassess the decision to value Land & building assets as at 1 April as opposed to the 31 March, and we recommend that management increase the scope of their own internal assessment of the difference between the carrying value and current value of assets as part of their financial statements' preparation procedures. This will mitigate the risk of significant differences between the carrying value compared to the current value of assets and hopefully ensure that any material differences are identified early in the account preparation process. **Management Response** The council will look to implement these recommendations.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

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
✓	**Oracle security and access controls** Control weaknesses were identified in the security and access of the Council's Oracle system. The most significant weaknesses were: • IT users self-assigning Oracle responsibilities without approval or subsequent timely removal. • Limited evidence of appropriate restriction of Oracle database administration The journals work we have carried out has not identified issues in any of the areas above, indicating that they are not risks of material misstatement to the 2020-21 financial statements.	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.
X	**Payroll Leavers Controls** As part of our procedures to gain assurance over pay expenditure we test a sample of leavers in year to ensure they are removed from the payroll system on a timely basis. We then rely on the payroll staff numbers report for our substantive analytical review of payroll costs. Our testing of a sample of 8 leavers to date found that all staff members were removed from the system between 3-6 months subsequent to the termination date. The process for staff to be removed is via notification to BTLS who maintain the administration of the payroll system. The Council should ensure all staff are removed from the system within a timely basis.	Our procedures during the 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. **Management Response** Performance in this area continues to be monitored and reports provided to the Audit, Risk and Governance committee on progress.

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	Journal Authorisation • Manual journals within the financial ledger are input by approved personnel, but they are not subject to authorisation controls at the time of input • The risk is that the lack of authorisation controls at the time of input creates a higher level of risk of error or manipulation. We recommended management review the authorisation procedures in place over journal input.	Management reviewed the processes in place in the prior year and commented that the there are personnel controls in place whereby only finance staff can post journals, with little incentive for manipulation. Along with this being part of a centralised finance function having established financial monitoring processes that allows the review of all transactions means the risk for manipulation or uncorrected errors is considered very low. Whilst formal journal authorisation requirements are not built into the system, management consider that suitable alternative arrangements are in place. Audit Response 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.

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	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Impact on total net expenditure £m
Valuation of Land & Buildings As detailed on page 10, additional valuations of land and buildings were undertaken to ensure the carrying value of these assets was not materially different to their current value as at 31 March 2022. As a result of the additional work, there have been significant amendments to the disclosures within the accounts to reflect the updated workings, along with the net impact of the increased valuations increasing the overall Property Plant & Equipment balance on the Balance Sheet.	Cost of Services - £4.5m Other Comprehensive Income - £72.3m	£76.8m	£76.8m
Overall impact	£76.8m	£76.8	£76.8

Detail	Group Comprehensive Income and Expenditure Statement £m	Group Statement of Financial Position £m	Group Impact on total net expenditure £m
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

* This amendment only impacts the Group Financial Statements and not the Council "single entity" accounts.

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.

Disclosure omission	Auditor recommendations	Adjusted?
Note 36 – Related Party Transactions From review of the draft accounts it was noted that related party disclosures in the single entity accounts could be enhanced. The related party transactions with Lancashire County Developments Limited are required to be disclosed in the single entity accounts, even though they are consolidated in the Group Accounts. We also identified related party transactions with Lancashire Environmental Fund Limited (LEF) which appear material to LEF (though immaterial to the Council) and so should be disclosed per the Code para 3.1.9.3,	Management are amending the accounts for the matter identified	TBC
Note 23 - Cash & Cash Equivalents The Council provide accounting support for the Lancashire Local Enterprise Partnership (LEP) which includes processing their transactions and managing their cash balances. As such the Council removes the cash balances relating to the LEP from their Balance Sheet on the basis that they are acting as an agent. In the draft accounts this adjustment was creating a negative balance on the Cash Held by the Council line in Note 23 (and a negative balance in the prior year comparator for Bank Current Accounts). Since there is no negative cash balance held the Council have amended the accounts to offset the LEP balance from the short term deposits line so that all disclosure lines within the note are positive. There is no impact on total Cash balances held per the Balance Sheet.	We are still discussing the adjustment required with management and our technical team.	TBC
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
Land & Buildings Valuation Errors 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. 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. 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. 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.	£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	*£160,994
Total audit fees (excluding VAT)	**£145,994**	***£160,994**

*Additional audit fees will be charged for the additional work performed on the valuation of land and buildings (£10k), and the valuation of derivative investments and liabilities held (£5k). As a result of these matters significant additional resources have been required to complete the additional work. All additional fees are required to be approved by PSAA.

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) along with the additional fees (£15k) will 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
Increases to scale fee for additional work not considered when the scale fee was originally set by PSAA	
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
Additional work in relation to the valuation of Land & Buildings	£10,000
Engagement, and review, of the GT internal valuations team work in valuing derivative investments and liabilities held	£5,000
Final Audit Fee	£160,994

D. Audit opinion

Our draft audit opinion is included below. We anticipate we will provide the group with an unmodified audit report.

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

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Lancashire County Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement, the Technical Annex and notes to the financial statements, including a summary of significant accounting policies The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2022 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

In our evaluation of the Chief Executive and Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the

group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

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

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

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

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

D. Audit opinion

- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Executive and Director of Resources. The Chief Executive and Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Chief Executive and Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive and Director of Resources is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority and the group will no longer be provided.

The Audit, Risk & Governance Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.
- We enquired of senior officers and the Audit, Risk & Governance Committee, concerning the group and Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;

  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit, Risk & Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - Journals, in particular with regard to manual journals, posted after the year end date which have an impact on the Authority s financial position, as well as any journals made by senior management personnel or those with a blank description
  - The appropriateness of assumptions applied by management in determining significant accounting estimates, such as the valuation of property plant, equipment and investment property, the valuation of the net pension liability, the completeness and accuracy of provisions and accruals.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Executive and Director of Resources has in place to prevent and detect fraud;
  - journal entry testing, with a focus on manual journals, posted after the year end date which have an impact on the Authority s financial position, as well as any journals made senior management personnel or with a blank description.
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property, accruals, provisions, and defined benefit pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment property, accruals, provisions, and defined benefit pensions liability valuations.
- Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's and component auditor's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority and group including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.

D. Audit opinion

- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.
- For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

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

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

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

Responsibilities of the Authority

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

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

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

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

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and

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

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

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

We cannot formally conclude the audit and issue an audit certificate for Lancashire County Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report,
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.
- We are also unable to issue our certificate of completion of the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of a matter brought to our attention by the Authority in 2013.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

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

Sarah Ironmonger, Key Audit Partner

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

Manchester

Date: