

# Lancashire County Council Audit Progress Report and Sector Update

4 July 2023



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

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# Introduction

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This paper provides the Audit, Risk and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a Council.

Members of the Audit, Risk and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications  
<https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at March 2023

## Financial Statements Audit 2021/22

At the January 2023 Audit, Risk & Governance Committee we reported to members that there were a few key areas we still needed to resolve in order to finalise our audit. These were:

- The accounting for the LEP transactions
- Revaluations of Land & Buildings
- Infrastructure Assets

Each of these areas has now been resolved and the audited accounts have been updated to reflect the final audited position on these balances. A revised schedule of audit adjustments has been included as an appendix to this report.

Also, subsequent to the last Audit, Risk & Governance Committee national guidance was released requiring us to assess the impact of the 31 March 2022 triennial valuation (signed off in March 2023) on the pension balances disclosed in the Statement of Accounts. Management have obtained a revised IAS 19 Report from their Actuary which reflects the updated member data and assumptions applied from the Triennial Valuation. This updated report is not materially different to the figures reported in the accounts. At the time of writing this report we are still completing our final procedures over the revised actuary report.

We anticipate that we will be able to issue of 2021/22 audit opinion by the end of July 2023. In order to complete this we will require:

- Final signed Statement of Accounts
- An updated Letter of Representation
- Confirmation of no further subsequent events

Our 2021/22 Audit fee reported in the January Audit Findings Report was £160,994. On completion of the above procedures the final fee is expected to be £175,994. Reflecting £10k to be charged for additional work in relation to the LEP and £5k in relation to the triennial valuation.

# Progress at March 2023 (cont.)

## Financial Statements Audit 2022/23

We undertook our initial planning for the 2022/23 audit in April 2023, and we have planned interim audit in July. Timescales have been delayed at the request of the Council due to the implementation of the new ledger.

Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Understanding how the Council makes material estimates for the financial statements
- Early work on emerging accounting issues

The results of our work to date are included in this report.

In July we plan to issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2022/23 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 30 November 2023.

The deadline for publishing audited local authority accounts is 30 September for 2022/23 onwards.

## Value for Money

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

NOA have issued Auditor Guidance Note 3 (AGN 03) in relation to Auditors' Work on Value for Money (VFM) Arrangements for 22-23 audits.

The ongoing delays in local audit continue to significantly impact audited bodies and the financial reporting and auditing process, and may therefore affect the timing of when the work on VFM arrangements set out in AGN03 is performed and reported.

The guidance states that the auditor should perform the procedures required as part of their work on VFM arrangements under AGN3 and issue their Auditor's Annual Report when their work is complete.

The Auditor's Annual Report should be issued no more than three months after the date of the opinion on the financial statements for all local government bodies.

We anticipate issuing our Auditor's Annual Report within 3 months of signing the Audit Opinion.

# Progress at March 2023 (cont.)

## Other areas

### Meetings

We met with Finance Officers in May as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

We also met with your Chief Executive in April to discuss the Council's strategic priorities and plans.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Accounts Workshop in January and February 2023, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

### Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2022/23 is the fifth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in the period 2018/19 to 2021/22 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited and have communicated fully with the Audit, Risk and Governance Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

# Audit Deliverables

## 2022/23 Deliverables

|  | Planned Date                 | Status      |
|--|------------------------------|-------------|
| <p><b>Audit Plan</b></p> <p>We are required to issue a detailed audit plan to the Audit, Risk and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2022/23 financial statements and to issue a commentary on the Council's value for money arrangements in the Auditor's Annual Report</p>  | July 2023                    | Completed   |
| <p><b>Interim Audit Findings</b></p> <p>We will report to you the findings from our interim audit within our Progress Report.</p>  | October 2023                 | Completed   |
| <p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the October/January Audit, Risk and Governance Committee. We plan to complete our work between July – October however significant work is required on the new ledger implementation. Progress in this area will impact on the timings of our reports.</p> | October<br>2023/January 2024 | Not yet due |
| <p><b>Auditors Report</b></p> <p>This includes the opinion on your financial statements.</p>   | January 2024                 | Not yet due |
| <p><b>Auditor's Annual Report</b></p> <p>This report communicates the key outputs of the audit, including our commentary on the Council's value for money arrangements.</p>  | January 2024                 | Not yet due |

# 2021/22 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 |
|--|---|------------------------------------|------------------------------------|
| <b>Valuation of Land &amp; Buildings</b>   | Cost of Services - £4.5m                          | £76.8m                             | £76.8m                             |
| 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. | Other Comprehensive Income - £72.3m               |                                    |                                    |
| <b>Overall impact</b>  | £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 |
|--|---|--|--|
| <b>Group Accounts Tax Expense*</b>   | -£5.4m  | -£5.4m                                   | -£5.4m                                   |
| 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.  |   |  |  |
| <b>Overall impact</b>  | -£5.4m  | -£5.4m                                   | -£5.4m                                   |

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



# 2021/22 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?  |
|---|---|------------|
| <p><b>Note 36 – Related Party Transactions</b></p> <p>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.</p> <p>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,</p>   | <p>Management are amending the accounts for the matter identified</p>   | <p>TBC</p> |
| <p><b>Note 23 - Cash &amp; Cash Equivalents</b></p> <p>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.</p> <p>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).</p> <p>The Council have reassessed the disclosures, with reference to the accounting requirements for agency relationships as per the Code. As per the code para 2.6.2.4 – the exception to the usual agency approach covers both cash collected and expenditure incurred on behalf of the principal, in which case there is a debtor or creditor position, and the net cash position is included in financing activities in the Cash Flow Statement.</p> <p>As such the Council has amended the Cash balance for 2021/22 to increase cash by £19.5m and to account for an offsetting creditor of £19.5m. The same amended has been processed for 2020/21 of £82.6m and since prior periods are being restated a third balance sheet is required as at 1 April 2020 to show the opening balance of the 2020-21 period. An adjustment to Cash and Creditors has been amended for of £92m.</p> | <p>Management has amended the accounts for the issues we identified. The balance sheet values for Cash and Creditors have been amended and an additional balance sheet has been added dated 1/4/2020 to present the opening balance of the Prior Year – as required for Prior Period Adjustments under IAS 8.</p> | <p>✓</p>   |
| <p><b>Note 18 - Infrastructure Assets</b></p> <p>Following the implementation of the statutory instrument and the amendment to the CIPFA code to resolve the national infrastructure assets issue, the Council has amended Note 18 to reflect the updated disclosure requirements per the revised code.</p>   | <p>Management has amended the accounts for this matter</p>  | <p>✓</p>   |
| <p><b>Presentation &amp; disclosure amendments</b></p> <p>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.</p>   | <p>Management has amended the accounts for the issues we identified.</p>  | <p>✓</p>   |

# 2021/22 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. At the time of this report, the impact of the revised IAS 19 Actuary Report has not been amended in the accounts. The difference between the net liability per the draft 2021/22 Statement of Accounts and the revised IAS 19 Actuary Report (post triennial valuation) is not material at circa £8m.

## 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<br>Income and Expenditure<br>Statement £'000 | Statement of Financial<br>Position £' 000 | Impact on total net<br>expenditure £'000 | Reason for<br>not adjusting |
|---|--|---|--|-----------------------------|
| <p><b>Land &amp; Buildings Valuation Errors</b></p> <p>Our audit procedures identified two assets, both relating, to land where there had been a significant change in value (£3.8m increase). On further investigation this was due to human error when inputting the updated asset values into the asset register and as such the value of these two items was overstated by £3.8m. We requested management conduct further analysis to determine if there were any further assets impacted by this error.</p> <p>Management's analysis concluded that the error impacted upon 7 assets with two land assets being overstated by £3.8m and five buildings assets being understated by £4.4m. As a result the overall quantification actually reduced the total impact on the Statement of Financial Position due to the errors 'netting off' against each other to create a net error of £0.563m.</p> <p>Since the error is not material, and the net impact is in fact trivial, the accounts have not been updated to reflect these valuation errors.</p> <p>Management has stated that this error would usually have been identified through the "large valuation movement" exceptions review they perform on all assets with valuation movements in excess of £200k and/or 50%. However, the formula was overwritten for these items and they were not identified. Management has confirmed that this has been addressed for future periods with the formula column now being protected.</p> | £0   | £0.563m                                   | £0                                       | Error is not material       |
| <b>Overall impact</b>   | £0   | £0.563m                                   | £0                                       |                             |

# Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local  
government

# Delayed publication of audited local authority accounts

In December 2022 there were over 600 local audit opinions outstanding. This means that many stakeholders can't rely on audited accounts to inform decision making – a significant risk for governance and control.

Local authority accounts are becoming increasingly complex as accounting standards evolve and local authorities enter more and more innovative financing arrangements and income generation projects. A significant challenge in managing local audits is the differing needs of various stakeholders. The local government sector, central government and regulators need to agree on the purpose of local audit and find a consensus on improving efficiency in publishing accounts. Grant Thornton has produced a report that explore the reasons for delayed publication of audited local authority accounts.

Table 1 below illustrates the declining performance against the target date for publication of audited accounts in recent years.

**Table 1 Audited accounts published by target date over the last six years**

| Financial year | Deadline for publication of unaudited accounts | Target date for publication of audited accounts | % audited accounts published by target date (all firms average) | % audited accounts published by target date (Grant Thornton audits) |
|----------------|--|---|---|---|
| 2016/17        | 30 June 2017                                   | 30 September 2017                               | 95  | 97  |
| 2017/18        | 31 May 2018                                    | 31 July 2018                                    | 87  | 91  |
| 2018/19        | 31 May 2019                                    | 31 July 2019                                    | 58  | 65  |
| 2019/20        | 1 September 2020                               | 30 November 2020                                | 45  | 54  |
| 2020/21        | 1 August 2021                                  | 30 September 2021                               | 9   | 12  |
| 2021/22        | 1 August 2022                                  | 30 November 2022                                | 12  | 20  |

## About time?

Exploring the reasons for delayed publication of audited local authority accounts

March 2023



# Delayed publication of audited local authority accounts

## What more can be done?

All key stakeholders in the local audit system will need to continue their efforts to secure improvement and a return to high levels of compliance with timely publication of audited accounts. The report explores several of the causes of delay and steps which might be taken to reduce the incidence of delays.

These steps relate to systems leadership, holding both authorities and auditors to account for their performance, a continued focus on the quality of accounts preparation and audit, and the effective engagement between auditors and audited bodies.

The report makes 20 recommendations for improving timeliness in publishing audited accounts.

The report also sets out a checklist which management and the audit committee should consider. The report recommends DLUHC, CIPFA or the FRC set out expectations for the system as a whole.

[Click here for full report](#)

## About time?

Exploring the reasons for delayed publication of audited local authority accounts

March 2023





# Local government procurement and contract management

## Background

Local authorities in England spend around £82.4 billion a year on goods and services. More than a third of all UK government spending on goods and services is spent in the local government sector<sup>1</sup>. Allowing for capital spending as well, the UK public sector procures around £300 billion a year overall.

We reviewed a large number of reports, inspections and interventions issued by a number of firms, including 53 Annual Auditor Reports issued by Grant Thornton UK LLP. To help build on existing good practice, in this report we highlight some common themes for members and officers to consider:

This report considers a selection of issues we identified under each theme and makes recommendations both to local authorities and, in one case, to central government. The report presents a good practice checklist for local authority members and officers to reflect on.

The analysis sets out five key themes for ensuring good practice:

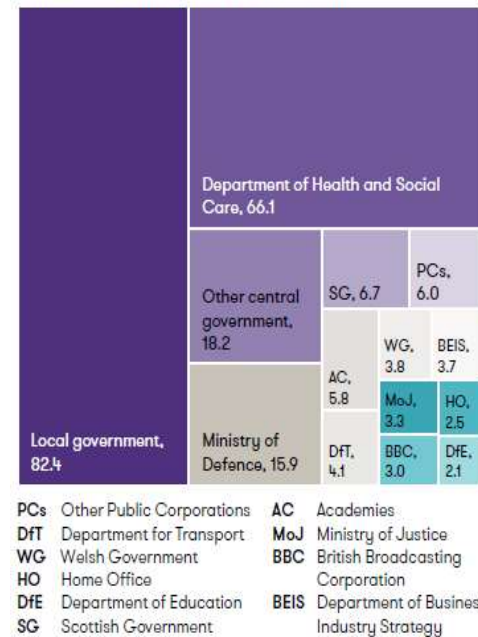
- Strategic planning
- Internal control
- Time, technical expertise, and people
- Commercial awareness
- Contract management

[full report here](#)

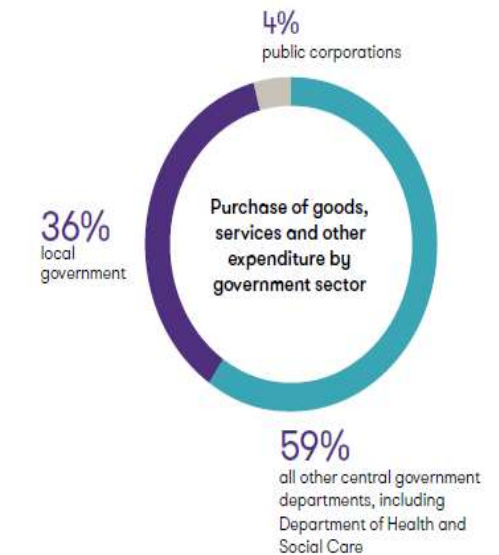
More than a third of all UK government spending on goods and services is spent by local government, so it's important councils have effective arrangements for procurement and contract management

## UK public spending

Public spending on goods and services, £ billions - analysis by segment and department<sup>2</sup>



Goods, services and other expenditure by segment<sup>4</sup>



<sup>1</sup> HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022

<sup>2</sup> Cabinet Office, Transforming Public Procurement: Government response to consultation, December 2021

<sup>3</sup> HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022

<sup>4</sup> HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022



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