

Lancashire County Council Audit Progress Report & Sector Update

January 2024



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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 local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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 January 2024

Financial Statements Audit

At the October Committee we reported that the Audit Findings Report will be presented to the January Audit, Risk and Governance Committee as we had sufficient resources in place to complete our work between October to December. However, significant work remains ongoing, and the implementation of the new financial system has impacted upon the delivery of the audit.

Whilst we have issued the majority of our audit samples (and have been testing evidence received to date to support them), we are still awaiting further information from the Council to enable us to finalise the sample selection process for creditors and debtors. Once this information is received, we will be able to issue our sample and await receipt of evidence to support the transactions.

Our IT audit identified four significant deficiencies in the general controls of the new system, and this has impacted upon our audit approach in a number of ways:

- We have increased the risk score for the journals control environment, increasing the minimum number of journals we are required to test.
- Additional audit procedures are required to gain assurance over system reports produced by the Council
- Additional reconciliations are required to ensure that non-financial data has migrated over to the new system as part of the implementation

We have regular catch-up meetings with management to discuss audit progress and to monitor the audit tracker for the sample testing and queries identified which require responses. We adjusted the phasing of our resources in December to remove team members from the audit before Christmas due to the volume of queries/samples which we were awaiting responses to from the Council.

We have a fully resourced audit team in place to deliver the audit before 31 March 2024, assuming the Council are able to support us to achieve this target.

Value for Money

The majority of our work in assessing the Council's arrangements for securing value for money in the use of its arrangements has been completed. As with previous years' our review of arrangements across financial sustainability, governance and improving economy, efficiency and effectiveness has identified several improvement recommendations but no significant weaknesses.

However, we are still assessing the governance arrangements with regard to the implementation of Oracle Fusion during 2022-23. As noted to the left, our IT audit of the general controls underpinning the new system and the implementation of the system identified a number of significant deficiencies. We are currently discussing these deficiencies with management and awaiting to see if further documentation is available to support some of the identified findings.

We are unable to finalise our value for money work and issue our Auditor's Annual Report until this work is completed.

Audit Deliverables

2022/23 Deliverables

	Planned Date	Status
<p>Audit Plan</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>Interim Audit Findings</p> <p>We will report to you the findings from our interim audit within our Progress Report.</p>	October 2023	Completed
<p>Audit Findings Report</p> <p>At the October Committee we reported that the Audit Findings Report will be reported to the January Audit, Risk and Governance Committee since we had resources in place to complete our work between October to December. However, significant work remains ongoing, and the implementation of the new financial system has impacted upon the delivery of the audit. We have appropriate resources in place to complete the audit before 31 March 2024.</p>	TBC – April 2024 (or earlier if additional committee added)	See left
<p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p>	TBC – April 2024 (or earlier if additional committee added)	As above
<p>Auditor's Annual Report</p> <p>This report communicates the key outputs of the audit, including our commentary on the Council's value for money arrangements.</p>	TBC – April 2024 (or earlier if additional committee added)	We are unable to issue the AAR until we finalise our consideration of the findings from the IT audit.

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing 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

Call for sanctions for late accounts amid fears of ‘more Wokings’ - public accounts committee (PAC)

The Commons’ public accounts committee (PAC) published a report, [Timeliness of local auditor reporting](#), which highlights problems caused by the delays to local audit.

Just 12% of local government bodies received their audit opinions in time to publish their 2021-22 accounts by the extended deadline. The committee warned that the problem is likely to get worse before it gets better.

The report points out that there are no sanctions for failing to produce accounts on time, for either auditors or councils.

The PAC and others have been concerned about the implications of audit delays and Sir Geoffrey Clifton-Brown said cases like that of Thurrock Council and Woking Borough Council demonstrate why this issue needs to be addressed. Both councils had years of unaudited accounts when they declared themselves effectively bankrupt due to excessive levels of debt.



Around 700,000 children are studying in schools that require major rebuilding or refurbishment works - NAO

The Department for Education has published guidance on school buildings which were constructed using reinforced autoclaved aerated concrete – a lightweight form of concrete prone to failure.

<https://educationhub.blog.gov.uk/2023/09/04/new-guidance-on-raac-in-education-settings/>

The NAO also published a report this summer about the declining condition of the school estate. The UK's independent public spending watchdog's report found that more than a third (24,000) of English school buildings are past their estimated initial design life. These buildings can normally continue to be used, but are generally more expensive to maintain and, on average, have poorer energy efficiency leading to higher running costs.

In recent years, there has been a significant funding shortfall contributing to deterioration across the school estate. The department for Education (DfE) has reported £7 billion a year as the best practice level of capital funding to repair and rebuild the school estate.

The report says DfE has assessed the possibility of a building collapse or failure causing death or injury as a 'critical and very likely' risk since summer 2021. The report highlighted ongoing concerns with the use of reinforced autoclaved aerated concrete (RAAC) – used between the 1950s and mid-1990s. DfE has been considering the potential risk posed by RAAC since late 2018, following a school roof collapse.

Read the full report here

<https://www.nao.org.uk/press-releases/condition-of-school-buildings-and-dfe-sustainability-overview/>



LGPS valuation gives ‘cause for optimism’ – Hymans Robertson

Many Local Government Pension Schemes are in a stronger position than three years ago to meet future member benefits, pension advisors have said following the most recent valuations.

Despite market instability brought on by Covid-19 and exacerbated by Russia’s invasion of Ukraine, the overall funding level rose to 107% of past service in March 2022, compared to 98.5% in 2019, Hymans Robertson said in a [report](#).

Analysts reviewed the triennial valuations of 73 of the 86 LGPS funds, and said that on average fund asset values rose by 27.5% up to March 2022.

Hymans Robertson said the better-than-expected funding outlook has prompted a reduction in employer contributions, from 21.9% of pay in 2019 to 20.8% in 2022.

Robert Bilton, head of LGPS valuations at Hymans Robertson, said: “Our analysis gives cause for optimism that the outlook for the long-term funding sustainability of the LGPS is robust, not least due to the hard work that has taken place across all funds over the last decade and longer.

“While the good news is welcome, the hard work doesn’t stop, and it is important that funds use the next two years to continue to systematically review their risks to keep them in the best place possible ahead of the valuations in 2025.”

The report said funding levels rose by the most for schemes that were already better-funded in 2019, but balances increased “across the board” in all funds that were reviewed.

Researchers said higher asset values mean funds will only need to deliver real investment returns of about 1.5% per year over the next 20 years to ensure they are fully funded.

Hymans said it expects more than three-quarter (77%) of funds to be able meet the annual level of investment returns by 2040.

“This is a very positive funding position for the LGPS, Considering that, not so long ago, the Scheme Advisory Board had set up a ‘deficit working group’ and the significant market events that the LGPS has had to navigate in recent years.”

“Being in such a strong position is a testament to the diligent and hard work of administering authorities over the last decade.”

Read the full report here

[LGPS 2022 Valuation - the big picture.pdf \[hymans.co.uk\]](#)

