Grant Thornton

The Audit Findings for Lancashire County Council

Year ended 31 March 2023

April 2024

Contents

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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.

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
April 2024

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 2023 for the attention of 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 work was completed remotely during September-March. Our findings are summarised on pages 6 to 41. We have identified not identified any adjustments to the financial statements that have resulted in adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix H], subject to the following outstanding matters;

- Receipt of evidence to support the calculation of the valuation from the external waste valuer – we will need to corroborate the key assumptions to other evidence – this is a key element of our work and could impact on the opinion we can issue
- Agreement and review of the final amendments required to the Pension figures referred to on page 10
- Finalisation of the responses to the issues raised in the IT audit to ensure we have assurance over information provided by the entity
- Final quality reviews of the audit work by the Engagement Manager, Engagement Leader and Engagement Quality Control Reviewer
- Completion of our subsequent events procedures
- Receipt of the signed management representation letter {see appendix G}; and
- Review of the final set of financial statements

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated financial statements audit report opinion will be unqualified. This is subject to the successful completion of the above items with no issues.

We have not been able to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. A further explanation of the significant weakness we have identified in the Council's arrangements is detailed within section 3 of this report

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 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 completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our findings are set out in the value for money arrangements section of this report (Section 3).
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 2022/23 audit of Lancashire County Council in the audit report, as detailed in Appendix H. 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	The implementation of the new ledger had a significant impact on the capacity of staff at the council and their ability to respond to audit queries as quickly as usually we would expect. Please refer to pages 20 and 21 of our report for further details.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Council for their support in working with us.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. There has not been a significant change in the level of external borrowing held by the Council as at 31 March 2023 compared to the previous years. Detailed Treasury Management Activity Reports are presented to the Audit, Risk & Governance Committee on a regular basis and clearly set out the Treasury Management activity and the rationale behind any decisions being made. As such, we have not identified any issues or governance risks in relation to the level of borrowing for the Council.

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Risk and Governance Committee meeting on 22 April 2024, as detailed in [Appendix H].

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.

We have revised the materiality figures communicated to Those Charged with Governance in the Audit Plan in July 2023, due to the actual gross expenditure changing significantly from that anticipated at the planning stage resulting in a review of the appropriateness of the materiality figure.

We set out in this table our determination of materiality for Lancashire County Council and the Group.

	Group Amount	Council Amount	Qualitative factors considered
Materiality for the financial statements	£41.908m	£41.489m	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 gross expenditure for the year for the group. The Council materiality is 99% of the group value.
Performance materiality	£31.431m	£31.117m	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	£2.095m	£2.074m	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	Relevant to Council/Group
Management override of controls 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, using a risk scoring process, 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 with regard to corroborative evidence - requested assurance from the component auditor in relation to the risk of management override of controls with Lancashire County Developments Limited. Our substantive testing of the journals posted by management also included a consideration of the IT audit findings stated at pages 17 and 18. We have not identified any evidence of inappropriate management override of controls from the testing performed. However, as with previous years, the Council does not have authorisation controls in place over journals – refer to page 40 for further details.	Group & Council
ISA 240 revenue improper recognition risk 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 24 July 2023, 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.	Group & Council

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/ or Group
Valuation of land and buildings The Council revalues its land and buildings on a three-yearly basis to ensure the carrying value in the Council's financial statements is not materially different from current value at the financial statements date. This valuation represents a significant estimate by management in the financial statements. The valuation of land and buildings is a key accounting estimate which is derived, depending on the valuation methodology, from assumptions that reflect market observations and the condition of the asset at the time. However, the valuation methodology for Local Government land and buildings is specified in detail in the CIPFA Code and the sector is highly regulated by RICS. As part of our continuous risk assessment, we have further focussed our risk assessment to the valuation of land and buildings with large and/or unusual changes to their valuation approach as a significant risk requiring special audit consideration. In order to identify any such assets in the Council's valuation programme, we made direct enquires with the valuers to understand the source data that underpins their valuations, corroborated the source and reasonableness of the external data they rely upon for their key assumptions, and evaluated the completeness and accuracy of source data provided directly from the Council. We then completed analytical procedures on their valuation report, with reference to external market data, to identify those assets at greater risk of material misstatement.	We have: • assessed the design and implementation of controls management has in place to ensure the estimate is accurate and underlying data is complete; • 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 2023 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 2023, we have compared the Montagu Evans (valuation specialists) market 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. Management provided 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 a £33m understatement. This is below our headline materiality threshold, used to determine the appropriateness of estimates. We have reviewed management's assessment and tested the appropriateness and accuracy of the key assumptions applied. We are satisfied that management's assessment is appropriate and that there is no material difference on the assets not valued. We have performed our own auditor point estimate using national indices to assess the valuation of Assets as at 31 March 2023 and our identified difference was £19.3m. Since these differences relate to uncertainty over an estimate, they are not classified as unadjusted misstatements and so is not recorded in Appendix D. During our testing of revaluations made in 2022-23, we identified that some Depreciated Replacement Cost (DRC) assets that were valued on 1 April, were not also subsequently uprated to 31 March 2023 values as management had intended via the process detailed on page 36 of this report. For these assets the Building Cost Information Service (BCIS) index applied in their valuation calculation had not been updated to the index as at 31 March 2023. The effect of this is that these assets are understated by £5.6m. This amount is below PM individually and the overall difference including the assets not valued in year, detailed above, is below our materiality level so we have assurance that the valuation of Land and Buildings is materially correct. As detailed on the summary we are still awaiting evidence to support the calculation of the valuation of the waste assets from the external valuer.	Group & Council

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
Valuation of pension fund net liability/asset The Council's pension fund net liability (surplus as at 31/3/23), 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 as at 31/3/22) and the sensitivity of the estimate to changes in key assumptions. As at 31/3/23 the Council was reporting a surplus position of £534m in the draft accounts. 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; • 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 also obtained assurance over the accuracy of the triennial valuation data. <u>Results</u> The movement in financial assumptions had such a significant impact that the Local Government Pension Scheme balance moved into a net asset position as at 31 March 2023. As such, further procedures were undertaken to ensure that this pension asset balance was recognised in accordance with the additional accounting requirements of IFRIC 14 - IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. We are satisfied that the entire pension balance can be recognised. We note however that the draft accounts netted off the remaining Teachers' Pension Liability against the LGPS asset – this is not allowable and so has been amended for in the final set of accounts. As part of our challenge over the accounting of the pension asset we also identified issues in how the upfront payment of contributions, made in May 2020, was accounted for in 2021/22 and 2022/23. The impact of the upfront payment of contributions should be such that there is an imbalance between the Pension Liability and the Pension Reserve. The Actuary was instructed to account for the upfront payment of contributions over the 3 years rather than upfront which led to a difference in the accounting compared to the Council. The Council has then incorrectly adjusted the pension liability for contributions which has caused a misstatement of the liability/Asset. This is not the correct accounting treatment and so the 2022/23 and 2021/22 balances require amending. We are currently in discussions with the Council and our technical team on the amendments required. Please refer to Appendix D for more details.	Group & Council

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
Valuation of Investment Properties 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 13, 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 £83.9m would need to be misstated by 45% for there to be material error in the group accounts. All investment properties held by the Group were valued as at 31 March 2023. We are satisfied that there are no significant matters which require reporting to those charged with governance, as a result of the procedures performed.	Group Only

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
Incomplete or inaccurate financial information transferred to the new general ledger In January 2023, the Group implemented a new general ledger system for the 2022/23 financial year-end. The Group has moved from Oracle R12 to Oracle Fusion, a cloud-based system. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system. There are also potential challenges with control account reconciliations and the availability of detailed transaction reports required for audit testing. We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.	We have: • Engaged our IT audit specialists to assist with completing an information technology (IT) environment review. This included gaining and understanding of the changes to any processes and controls within the new system, documenting and evaluating the design and implementation of controls within the new general ledger system; and • mapped the closing balances from the previous general ledger to the opening balance position in the new ledger to ensure accuracy and completeness of the financial information. As a result of our work, we have gained assurance that financial information has been appropriately migrated from the old ledger to the new ledger. The work of out IT audit specialists identified 4 significant weaknesses in the IT General Controls for the new system. As a result of these findings, we performed additional reconciliations of non-financial data and considered specific system users in our journals risk assessment. We gained sufficient assurance over the accuracy of migrated data from the additional tests performed. Refer to pages 17 and 18 for further details on the new system implementation.	Group & Council

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 and in relation to the implementation of Oracle Fusion. 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 £83.9m would need to be misstated by 45% for there to be material error in the group accounts. All investment properties held by the Group were valued as at 31 March 2023. 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 judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £2,099.5m	Other land and buildings comprises £1,626m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its internal valuation team to complete the valuation of the majority of properties as at 31 March 2023 on a three yearly cyclical basis. To determine that the carrying value of those assets not valued at 31 March 2023 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 2022/23. 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, based on the market review provided by the valuer as at 31 March 2023, 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 £2,099.5m (2021/22 £2,063.7m).	• 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 2023, we have compared the Montagu Evans (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. • Management provided 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 a £33m understatement. This is below our headline materiality threshold, used to determine the appropriateness of estimates. We have reviewed management's assessment and tested the appropriateness and accuracy of the ley assumptions applied. • We are satisfied that management's assessment is appropriate and that there is no material difference on the assets not valued. Since this difference relates to uncertainty over an estimate it is not classified as an unadjusted misstatement and so is not recorded in Appendix D.	Grey

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
Investment Property Valuation - £83.9m	The Council's subsidiary company, Lancashire County Developments Limited, has engaged Cushman & Wakefield to complete the valuation of properties as at 31 March 2023. Only two properties make up the portfolio and both were revalued as at 31/3/23. 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. There were net additions of £5.3m in the year which offset a valuation decrease of £7.6m. The total year end valuation of investment property was £83.9m, a net decrease of £2.3m from 2021/22 (£86.2m).	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 13, 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 £83.9m 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 - £50.9m	The Council has a range of provisions on its balance sheet which totalled £50.9m at 31 March 2023. The largest provisions held relate to Insurance which total £39.1m. 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 current provision at 31/3/23 is £8m less than the experts estimate for 21/22. There is no additional estimate for 22/23. 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 31/3/23 and currently the value provided for is circa £8m less than the expected obligation as at 31/3/23 - 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 estimate

Net pension liability (surplus) – Draft Accounts £534m Revised Accounts - £691m

IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments.

IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Summary of management's approach

The Council's total net pension asset at 31 March 2023 is £691m (PY -£1,006m) 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 2022, utilising key assumptions such as life expectancy, discount rates, salary growth and investment returns.

Given the significant value of the net pension fund asset, small changes in assumptions can result in significant valuation movements. Due to changes in key financial assumptions (CPI inflation and discount rate), the Council has seen a movement of £1,697m compared to the balance as at 31 March 2022.

Audit Comments

- 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 2022/23 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:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.8%	4.7% - 4.9%	
Pension increase rate (CPI)	2.7%	2.7%	
Salary growth	4.2%	3.95% - 4.2%	
Life expectancy – Males currently aged 45/65	Pensioners: 21.5 years Non-pensioners: 22.8 years	21.0 – 22.6 22.4 – 24.3	
Life expectancy – Females currently aged 45/65	Pensioners: 23.8 years Non-pensioners: 25.6 years	23.5 – 24.7 25.3 – 26.6	

- 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 2022/23 to the valuation method however the movement in financial assumptions had such a significant impact that the Local Government Pension Scheme balance moved into a net asset position as at 31 March 2024. As such, further procedures were undertaken to ensure that this pension asset balance was recognised in accordance with the additional accounting requirements of IFRIC 14 - IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. We are satisfied that the entire pension balance can be recognised.
- As noted on page 10, the pension balances have been amended to ensure the accounting for the upfront payment of contributions (made in 2020) is accounted for correctly in the Pension Reserve and the Balance Sheet and to ensure that the remaining Teachers' Pension Liability is reported separately from the LGPS asset.

We are satisfied with the reasonableness of estimate of the net pension asset (as amended)

Assessment

Light Purple – Subject to the amendments detailed on page 10 - We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating				
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
Oracle EBS	Detailed ITGC assessment (design effectiveness only)					All risks – general ledger	See below.
Oracle Fusion	Detailed ITGC assessment (design effectiveness only)					All risks – general ledger	Additional IPE procedures have been performed to ensure the accuracy and completeness of reports provided to us for the audit. We have also considered the findings of the IT audit in our Journals testing. Recommendations have been raised for management as detailed in Appendix B.
Active Directory	Detailed ITGC assessment (design effectiveness only)					All risks - network	None required

Assessment

- Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Not in scope for testing

2. Financial Statements: Information Technology

We also performed specific procedures in relation to the significant changes during the audit period, specifically the new system implementation. We observed the following results:

IT system	Event	Result	Related significant risks/ risk/observations
Oracle Fusion	New system implementation	Significant deficiencies identified	Lack of proper documentation and retention of the IT project related activities. The deficiencies identified are shown at appendix B of this report, along with management responses on progress made to address the issues identified.

Assessment

- Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Not in scope for testing

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 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 other incidents in the period and no other issues have been identified during the course of our audit procedures.
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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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 and the prior period adjustment referred to in Appendix G.
Audit evidence and explanations	The impact of the implementation of the new ledger delayed the publication of the draft accounts from 31 May 2023 to early September 2023 and also placed additional stress on the capacity of the Council's finance team to respond to audit queries. Our original intention was to complete the audit by 31 December 2023 however, 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. The adjusted timing of the audit was for it to be substantially complete by 31 March 2024. We had good communication with management and prioritisation of the audit through February and March to achieve this timeframe. As with previous years, 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. The information we are provided is at a batched level, were thousands of individual transactions can be shown as one line in the report we receive. 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 to source evidence. Our original expectation was that the new Oracle Fusion system might be able to produce more detailed reports to allow us to obtain transaction level data, however that has not been possible to date. See next slide for further details. Also, the audit requirements for the payroll substantive analytical review increased in year to require us to test a sample of 12 staff members who have had a change of circumstances during the year as well as a sample of 12 new starters and 12 leavers. The Council informed us that they are unable to produce a report showing all change in circumstances retrospectively for the year. As such we had to amend our audit approach to conduct substantive testing of payroll costs – this resulted in testing a sample of 78 staff members back to contracts/payslips etc.

2. Financial Statements: new matters identified

Issue	Commentary	Recommendation
Transaction listings The Council was unable to provide us with transaction reports at individual transaction level.	As with previous years, the transaction listings provided for audit, whilst agreeing to the draft accounts, were not at individual transaction level. Due to the volume of data, and the time taken to run a conventional seeded report from the system at transaction, the Council provided us with reports at a "batched level". This is where postings made to sub-ledgers such as accounts payable and accounts receivable are batched up (multiple transactions added together) and then posted to the General Ledger as one item. The impact of this is that it limits the capabilities of our digital tools in analysing the population and means that we are unable to identify and "strip out" contra entries which have no impact on the overall balance. We also found that on many occasions there can be several levels of batching meaning that we had to continue to request drill downs of data lines until we finally reached a point of being able to select one transaction to test. In testing transactions, we are required to understand the population in full and to consider both under and overstatement in testing and obtaining audit assurance. In many instances, the absolute populations reviewed were significantly greater than the net amounts reflected in the financial statements, resulting in sample sizes being much larger than would typically be expected. The increased sample sizes resulted in additional time being taken, both for the finance team to gather supporting evidence and for the audit team to perform required procedures. With the populations being tested containing many reversing entries and coding adjustments, arising from month-end and year-end procedures, this does further increase resource input as we need to understand the reason for reversal/re-coding in addition to the original and in some instances subsequent transactions. Below we have demonstrated the impact off this issue on our sample sizes for Other Expenditure and Creditors. The issue was more pervasive than just these two areas, however these are the sections with the largest impact. The additional time input for these areas, has resulted in additional audit fees being charged in Appendix E.	We recommend that management engage with their colleagues in their digital department and with partners at Oracle Fusion to discuss their reporting requirements and work towards a position of being able to provide us with transaction level data for the 2023-24 audit. We note that management have already arranged a meeting with their digital team and ourselves to discuss the reporting requirements in April.

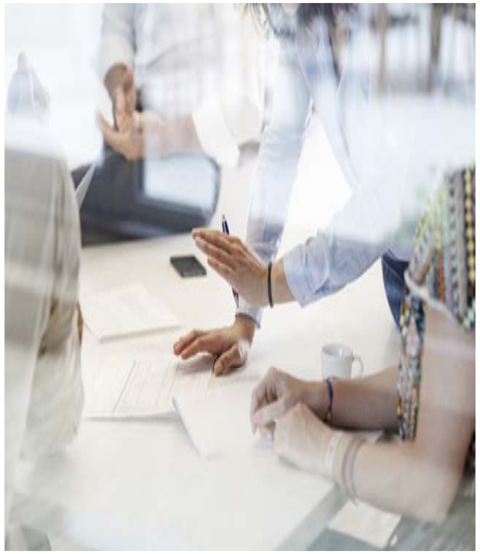
Financial Statement Line	Sample size: Absolute Value	Indicative sample size: Net Balance per Statement of accounts
Other Expenditure	Population Value – £3,353m Sample Size – 90 items	Population Value – £1,404m Sample Size – 35 items
Creditors	Population Value – £1,594m Sample Size – 103 items	Population Value – £339m Sample Size – 17 items

2. Financial Statements: new matters identified

Issue	Commentary	Recommendation
Bank Reconciliations During the course of our testing of the cash balances held by the Council our usual audit tests are to review and reperform the year-end bank reconciliation as well as the following months bank reconciliation. We noted from our review of the 31 March 2023 bank reconciliation that it was not formally completed and reviewed until 20 September 2023. We also noted that there were no further reconciliations completed until the September 2023 reconciliation which was completed on 2 October. The reason for the delay in completion of the March bank reconciliation and the absence of further reconciliations until September was due to issues related to the new ledger implementation impacting on the ability of management to run the necessary reports which were not resolved until September.	We found no issues with the testing of the bank reconciliations but the delay in completing the March reconciliation and the absence of further reconciliations is a control deficiency which requires reporting to those charged with Governance.	Management have rectified the issue during 2023/24 and we have obtained the October bank reconciliation to confirm that monthly reconciliations are once again taking place.

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 work performed. We plan to issue an unmodified opinion in this respect – refer to Appendix H.
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 £2 billion we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. • Note that work is not yet completed and the planned timescale for the work is after completion of the financial statements audit.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2022/23 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 (VFM)

Approach to Value for Money work for 2022/23

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 completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

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. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Medium-Term Financial Sustainability The Council update its Medium-Term Financial Strategy quarterly and throughout 2022-23 the MTFS was updated to reflect the significant changes during the year. Due to rising inflation, demand for services and funding uncertainty there was a significant increase in the size of the Council's funding gap to 2026/27. The forecast funding gap for 2023/24 is £9.5m, with an updated funding gap of £23.286m by 2026/27. Already accounted for within this funding gap are sizeable levels of savings and so there is a risk over the Council's medium-term financial sustainability.	In addressing this risk, we held discussions with key officers over plans to address the MTFS gap, reviewed the latest financial plans and financial monitoring reports, and reviewed of the assessment of achievability of savings plans, review of the Capital programme.	A significant weakness in arrangements has not been identified	We identified two improvement recommendations in our AAR. - The Council must ensure that savings plans are realistic and deliverable and ensure that planned savings are fully scrutinised throughout the year, identifying areas of slippage and mitigations which need to be put in place. Savings delivery should be monitored and regularly reported transparently to Members and taxpayers. - The Council must further scrutinise the capital delivery plan to ensure that it is realistic and deliverable. Refer to the AAR for further details.
Governance arrangements over major projects We have identified a risk in relation to the Council's arrangements for ensuring that "business-as-usual" governance processes and controls are not interrupted whilst a significant project is being implemented. We will focus our review on the arrangements relating to the implementation of the new Oracle Fusion system during the 2022/23 financial year. We will discuss with management and review the underlying arrangements that were in place to manage the implementation of the new ledger alongside usual governance arrangements.	In addressing this risk, we held discussions with key officers, reviewed the Council's implementation arrangements for the new ledger, reviewed the lessons learnt work completed which reflected on the implementation of the new system.	A significant weakness in arrangements has been identified	We identified one key recommendation in our AAR as a result of our finding that proper arrangements were not in place during 2022/23 in relation to the implementation of Oracle Fusion. - The Council must ensure that all outstanding issues with the Oracle Fusion system are rectified in line with its current timescale. The Council must also ensure that it engages with all lessons learned activities regarding the Oracle Fusion implementation with a focus on the root causes of issues felt during the process. The Council must also ensure that causes of the issues and the lessons learned from the implementation are appropriately reported to members. We acknowledge that management have made significant progress in addressing the implementation issues during 2023/24. We will consider this progress as part of our 2023/24 value for money assessment. Refer to the AAR for further details.

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 and consider that an objective reasonable and informed third party would take the same view. 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

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 Grant Thornton International Transparency report 2023.

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	2022-23 £10,000 2023-24 £12,500	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 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has 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 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.

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Company that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff [that would exceed the threshold set in the Ethical Standard]

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified 12 recommendations 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 2023/24 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
High	**1. System design and specification and key custom reports documentation shared by Egress Ltd lacked explicit approval** During our review, we inspected the Fusion BI reports' functional specification and custom reports workbooks. Confirmed that the documents included the design for each critical financial component and associated processes, considerations of additional conditions for automation, type and format of data and processes to be delivered. Additional business requirements and rules that may affect the system operations were also covered. However, we noted that the workbooks shared did not include individual approvers of each document, hence we could not verify if each design and specification aspect of Oracle Fusion was formally considered and approved. Risk The lack of individual approvers for each specification and design document increases the risk of errors, inaccuracies, and suboptimal functionality in the system. It is therefore recommended that all design and specification aspects of the system be reviewed, approved, and documented to minimise the risk of issues or errors in the system.	Ensure that all design and specification aspects of the system are documented, reviewed, and formally approved. This can be coupled with an existing formal change management process to track and manage any changes to the system design and specification to ensure that they are properly reviewed and approved before implementation. Management response There is now a formal change management and design approval process in place for all designs specifications and approvals.
	2. Segregation of Duties (SoD) issues identified during the Oracle Fusion security and finance roles mapping LCC tracked the finance users' LCC Job Role to their Oracle Fusion roles. However, upon inspection of the mapping documents and inquiry with the LCC, we confirmed that the process was not effective as the issues with segregation of duties were identified during the development and after Go-Live. Within the evidence submitted, we noted that the issues with access were highlighted with 16 user accounts. Furthermore, limited stakeholder approval evidence was provided for the SoD verification. During our ITGC review, we identified issues with privileged access conflicts. Refer to finding 7 for details. Risk The ineffective process of mapping system roles with employee designations increases the risk of unauthorised access to sensitive financial data, which can result in errors, omissions or material misstatements. Without proper stakeholder approval evidence, it is difficult to ensure that the SoD verification process was effective and that all potential SoD conflicts were identified and addressed.	It is recommended that management conduct a thorough review of their segregation of duties (SoD) process within the Oracle Fusion system to identify and address any potential conflicts. Management should also ensure that access to sensitive financial data and processes is restricted to only those with a legitimate business need and that stakeholder approval evidence is properly documented and maintained to support the SoD verification process. Regular reviews and updates of access controls should also be conducted to minimise the risk of unauthorised access. Management response A thorough review has been completed and all role restrictions are now in place. All changes are recorded in the Councils IT Service management tool with regular reviews are in place. A further, more strategic, project is taking place to review all roles and standardise them across the whole system.

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
High	3. Data was not completely migrated into Oracle Fusion We inspected the three validation reports that summarised the reconciliation runs conducted for financial tables loading of ERP and HCM (HR/Payroll) modules and noted that LCC was unable to provide evidence that 100% of data was migrated. We also inspected a Programme Board Highlight report and confirmed that LCC accepted the risk of incomplete data migration and opted for manual handling of low volume data migration issues. Confirmed that LCC was able to cross match and sign off on discrete data sets, such as the GL balance transferred to Fusion. However, there were limitations in reporting capabilities of Oracle Fusion, which made it impossible to carry out detailed subledger migration reconciliation. Further noted that there was no close-out remedial action report from the migration partner, Egress, and the business leads had to undertake remedial action on a business-as-usual (BAU) basis with support from third party, Fujitsu. Risk Inappropriate data migration, lack of a close-out remedial action report and the limitations in the reporting capabilities of Oracle Fusion highlights the possibility of errors or inaccuracies in the migrated data. Examples may include incorrect financial reporting or inaccurate financial statements.	Management should consider the following steps to address the issue: • Conduct a thorough review of the migration process to identify any potential errors or inconsistencies in the migrated data. This involves incorporating continuous validating process for and formally assessing the completeness and accuracy of the migrated data, with accordant approvals. • Ensure that the limitations in the reporting capabilities of Oracle Fusion are addressed to enable detailed subledger migration reconciliation and are formally documented. This can be achieved by either performing further development work on updating such reporting capabilities or implementing additional reporting tools that can provide the required level of detail. • Consider implementing additional controls and measures to ensure the completeness and accuracy of migrated data, such as conducting additional testing and validation of the migrated data and implementing a formal change management process to track, manage and resolve all associated inconsistencies. Management response The council's migration strategy took into account the functionality available at the time, however, subsequently that approach has shown some deficiencies. These have been worked through since go-live, and materially eliminated by the closure of the 2022/23 accounts. A reporting strategy is being finalised and work with the system vendor specifically on reporting is underway, so that further data cleanse activity is more efficient.
	4. Lack of explicit Chart of Accounts mapping approval documentation We inspected the general ledger hierarchy loaders used to integrate the charts of accounts. In total, 9 files were assessed and verified that they covered specific cost centres and their associated segmentations based on value. However, issues with data migration completeness and accuracy were noted during the project and no explicit approval for the Charts of Accounts mapping was provided by LCC. Risk Without explicit approval for the Charts of Accounts the risk of inconsistencies or errors in the financial data within the Oracle Fusion system increases. It can be difficult to ensure that all aspects of the financial data are accurately reflected in the system and have been reconciled.	Management should consider implementing additional controls and measures to ensure the completeness and accuracy of migrated data. This can include conducting additional testing and validation of the migrated data, implementing a formal change management process to track and manage any changes to the system, and reviewing and updating the post implementation processes to ensure that best practices are being followed. Management response The council did not make any significant changes to its chart of accounts. There was a sign-off process between R12 and Fusion balances. A more formal change management process for updates and amendments for oracle fusion is now in place.

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
High	5. Lack of complete documentation for the key interfaces Key interfaces were recorded and tracked in the Integrations Tracker. However, the tracker shared was incomplete and did not provide verified information on individuals who tested and approved the interfaces. Risk Without complete and verified information on individuals who tested and approved the interfaces, it can be difficult to ensure that all necessary steps were taken to ensure the accuracy and completeness of the interfaces. This can result in issues with data integrity, quality, and security.	Management should consider conducting a thorough review of the key interfaces to ensure that they are functioning as intended and that data integrity, quality, and security are maintained. This can include conducting additional testing and validation of the interfaces and implementing additional controls and measures to ensure the completeness and accuracy of the data. Management response A project is currently underway to review and document all interfaces in Oracle Fusion.
	6. Post-implementation review identified significant errors with migrated data Inspected the briefing note from LCC Finance Team regarding the post go-live activity as of 23/07/2023 and confirmed the following: The review of transactions between the 22/23 and 23/24 financial years had identified several issues, including emergency payments made outside of systems, invoices that failed to migrate from R12 to Fusion, transactions posted in R12 after the cutover, D&C income posted to May 23, and missing transactions in AP following the bank reconciliation. Despite corrective measures having been taken, and the wider Finance Team has held regular meetings, there was still a risk of errors emerging. The Finance Team has been asked to consider transferring or correcting any late processed transactions for 22/23 in the first quarter of 23/24. Risk The need to transfer or correct late processed transactions for the previous financial year further increases the risk of material misstatements in the financial statements. Therefore, the identified risks can have significant financial and operational implications for the organisation and should be addressed promptly to ensure the integrity of financial data and compliance with regulatory requirements.	Management should consider the following: • Conduct a comprehensive review of the financial data in the Oracle Fusion system to identify any additional issues or inaccuracies. This should include a review of emergency payments made outside of systems, invoices that failed to migrate, transactions posted after the cutover, and missing transactions • Establish a robust process for identifying and addressing issues in a timely manner, such as implementing a system for regular monitoring and reporting of financial data and establishing a framework for addressing identified issues promptly. Management response A comprehensive review was undertaken as part of the closedown of the 2022/23 accounts, following which regular monitoring is undertaken on a monthly basis through the council's financial monitoring schedule

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
High	**7. Business users with inappropriate administrative access to Oracle EBS and Oracle Fusion** During our audit, we noted that system administrative access to Oracle EBS and Oracle Fusion had been granted to 36 and 17 business users, respectively. These users had financial or operational responsibilities. Furthermore, management was unable to provide justification for two privileged generic accounts identified in Oracle Fusion. Risk A combination of administration and financial/ operational responsibilities creates a risk that system-enforced internal controls can be bypassed. This could lead to • unauthorised changes being made to system parameters • creation of unauthorised accounts, • unauthorised updates to their own account privileges • deletion of audit logs or disabling logging mechanisms.	Access should be based on the principle of least privilege and commensurate with job responsibilities. Management should define segregation of duty policies and processes and ensure that there is an understanding or roles, privileges assigned to those roles and where incompatible duties exist. It may be helpful to create matrices to provide an overview of the privileges assigned to roles. Management should adopt a risk-based approach to reassess the segregation of duty matrices on a periodic basis. This should consider whether the matrices continue to be appropriate or required updating to reflect changes within the business. If incompatible business functions are granted to users due to organisational size constraints, management should ensure that there are review procedures in place to monitor activities, e.g. reviewing system reports of detailed transactions; audit trails for activities performed by the privileged accounts, etc. Management response The council has updated and amended access privileges for users who had been given access for the purposes of system implementation. Digital Services manage a central control point where reviews are undertaken regularly to ensure compliance in this area.
High	**8. Lack of formal process in managing Oracle Fusion self-assigned roles** We identified 38 instances in Oracle Fusion applications where accesses were self-assigned. This comprises eight unique users who assigned the accesses to their accounts. No approval documentation was provided for audit inspection. Risk User access may not be appropriately aligned to job role requirements which may lead to inappropriate access within the application or underlying data.	Management should ensure that all access requests are formally documented and approved. Additionally, it is advisable to regularly monitor system audit trails, preferably by IT security personnel or a team independent of those administering Oracle Fusion and its underlying database. Any identified issues within these trails should be thoroughly investigated, and mitigating controls should be implemented to minimize the risk of recurrence. Management response Accesses have been reviewed and access has been removed for those no longer needed. This will be reviewed regularly with permission requests following a formal route.

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
High	9. Insufficient retention of documents related to Oracle Fusion system changes and access provisioning During our audit, we noted that relevant documentation of Oracle Fusion system changes and access provisioning was not available for audit inspection. We were informed that the Service Now application was used for the management of IT services, encompassing system changes and access provisioning throughout the audit period. However, this application was no longer accessible at the time of our audit as it was decommissioned. Risk Without proper retention of documentation: • It becomes challenging to attribute changes to specific individuals or teams, leading to a lack of accountability for system modification and access-related actions • In scenarios involving staff turnover or changes in roles, it poses difficulties in transferring knowledge related to system changes and access provisioning processes, leading to potential disruptions • It becomes harder to monitor and detect insider threats, as unauthorised activities may go unnoticed in the absence of clear record • It can impede troubleshooting and problem resolution processes, causing delays in addressing issues and impacting overall system performance	It is recommended that management should establishing and maintaining a robust system change and access provisioning documentation process for ensuring transparency, accountability, and security of the IT environment. The process should include clear guidelines, regularly updates records, and adherence to security best practices. When changing the IT services solutions (such as Service Now application), it is recommended that management should follow the process of acquiring and developing new IT system, including: • Implement a comprehensive data backup plan before migrating to a new IT services solution. The integrity of backups should be verified to ensure that critical records are securely stored and can be readily accessed if needed. • Document all relevant information about the existing IT service solution, including access provisioning, system changes, and configurations. • Perform thorough validation and integrity checks on data migrated to the new IT service solution to identify and address any discrepancies or missing records. Management response Service Now (the council's incident management tool) is now fully functioning and is being used to log all incidents and changes concerning Oracle Fusion. This allows us to monitor, maintain, and secure Oracle Fusion and a robust Digital Service change management process is in place.

Controls

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	**10. Fully depreciated Assets** From our fixed asset register, we have noted a high number of fully depreciated VPEs as at 31 March 2023, which amounted to £26.0m (GBV). We challenged management over what processes are in place to determine if these assets still exist (are in use) or whether they should be accounted for as disposals/derecognitions, and requested evidence of sample exercise conducted in 2022/23, if any. As per management's response, an existence exercise is usually undertaken each year but due to the delays and additional work involved in the implementation of the new financial system, this has not been done and this will be picked up for 2023/24.	We recommend that an annual existence exercise is undertaken to ensure assets reported in the balance/FAR still exist and minimize the risk of overstated GBV and accumulated depreciation within the PPE note. **Management Response** Whilst existence testing is undertaken as part of the annual revaluation programme, additional steps will be taken in the year-end reconciliation of the FAR and GL.
Medium	**11. Accounting for Prepayments** From our testing of a sample of prepayments, we identified that there were a number of items which had been recorded as a prepayment in the accounts as at 31 March 2024 but they were not actually paid until April 2024, after the year end. As such these items should not have been recorded as prepayments. The issue arose as the ledger automatically record an expense and accrual once a PO is receipted on the system. Subsequently, when the related invoice is received, this is matched in the system and the accrual will be reversed and transferred to the liability code. At year end, the Council records a manual journal to recognise PO/invoices relating to 2023/24 as Prepayments. However, at year end, there are instances when the related invoices are not paid before 31 March. For invoices relating to 2023/24, the Council's adjustment was a debit to Payments in advance and a credit to expenditure. This effectively cancels out the impact on I&E, which is correct, however the issue lies when the invoice is not actually paid out before 31 March, which results to an overstatement in both Payments in advance and creditors.	We recommend that management revise its year-end close down procedures to ensure that a manual review is undertaken to confirm that items included in the Prepayments balance have actually been paid as at 31 March. **Management Response** Additional steps will be introduced as part of the year-end close down work.
Medium	**12. Payroll subledger transactions** Our substantive testing of a sample of payroll transactions in the year identified a number of very large transactions. We challenged the council on the existence of these entries, and they are caused as a result of intermediary data entries which are being transacted through the subledger and incorrectly posted to the general ledger. This has no overall impact on the general ledger balances however, as the contra entries are being transacted at the same time. These transactions have led to us being required to test a very large sample of payroll transactions (78 items) since the absolute value of the population is inflated by these large postings. The fact that these large postings are being made suggests a weakness in the payroll sub-ledger control environment, albeit there are identified compensating arrangements in place to mitigate this risk.	We recommend that management reviews the configuration of the payroll subledger and controls around postings being made to the General Ledger to ensure that such large contra postings are not recorded in the future. **Management Response** This matter is currently being investigated by the council's Digital Services team, in order to put in place an appropriate resolution.

Controls

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

C. Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2021/22 financial statements, which resulted in three recommendations being reported in our 2021/22 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Material difference identified between the carrying value and current value of Land & Buildings As detailed on page 10 of our (2021-22) 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 (2021-22 AFR). 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 have continued to have a formal valuation date of 1 April, with a valuation process of performing the valuations throughout the year and then assessing the market conditions which occurred as at 1 April to set the formal valuation date. However, for 2022-23 management have then performed a secondary valuation assessment for assets valued on a Depreciated Replacement Cost basis. This secondary assessment includes updating the BCIS index element of the valuation calculation so that the BCIS index as at 31 March 2023 is included in the calculation of the valuation of each asset. This process has ensured that, for those assets revalued during the year, the valuation of DRC assets in the balance sheet is their current value as at 31 March 2023. We are satisfied that this approach has been reasonable in mitigating the risk significant differences between the carrying value compared to the current value of assets.

Assessment

✓ Action completed

X Not yet addressed

C. Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2021/22 financial statements, which resulted in three recommendations being reported in our 2021/22 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**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.	Our procedures in 2022-23 have found that, for a sample of 12 leavers, they have all been recorded on the system in a timely manner throughout the year. **Management Response** Performance in this area continues to be monitored and reports provided to the Audit, Risk and Governance committee on progress.
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 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 Council within our Journal risk assessment. 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 8.

Assessment

✓ Action completed

X Not yet addressed

D. 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 2023.

Detail	CIES £m	Statement of Financial Position £m	Impact on total net expenditure £m	Impact on general fund £m
Adjustment to Prepayments Our testing of a sample of prepayments identified that a number of these items had not actually been paid at year-end and therefore should not be accounted for as prepayments. Further details included on page 35. By amending this balance the residual balance unadjusted is below materiality.	£0	Creditors – £14.1m Prepayments – (£14.1m)	£0	£0
Pension Fund Asset As detailed on page 10, the draft accounts incorrect netted the Teachers' Pension Liability of £75m against the LGPS asset. This is not allowable as the balances relate to two distinct pension schemes with no right of set off. As such the Accounts have been adjusted to show a LGPS Pension Asset and a TP Liability.	£0	Pension Fund Asset – (75.1m) Other Liabilities - £75.1m	£0	£0
Historic reconciling difference between the Fixed Asset Register and the Statement of Accounts Our reconciliation of the Accounts to the Fixed Asset Register identified a difference of £9.6m which is a historic difference owing to cumulative manual adjustments made for the differences between the GL and fixed asset subledger, with the intention of adjusting them in the fixed asset subledger in the new year and reversing the manual journal in the GL once the subledger has caught up. However, in some instances, the reversal of manual adjustments were missed and have resulted in a net overstatement in the GL and accounts by £9.6m. The gross impact on Note 18 is Land & Buildings Gross Book value is overstated by £57.6m and depreciation is overstated by £48m.	Loss on disposal £9.6m Removal of expenditure from CIES under statute (£9.6m)	Reserves – Capital Adjustment Account £9.6m PPE - Land/Buildings GBV (57.6m) PPE - Land/Buildings Depreciation £48m	£0	£0
Accounting for Prepayment of Contributions In May 2020 the Council made an upfront payment of £120m for LGPS contributions to the Pension Fund. This amounts was based on an actuarial assessment of the Council's expected contributions for 2020/21, 2021/22 and 2022/23. The payment was correctly accounted for at the time in the Council's Accounts as CR Cash £120m and DR Pension Liability £120m. The impact of the upfront payment of contributions should be such that there is an imbalance between the Pension Liability and the Pension Reserve. The Actuary was instructed to account for the upfront payment of contributions over the 3 years rather than upfront which led to a difference in the accounting compared to the Council. The Council has then incorrectly adjusted the pension liability for contributions which has caused a misstatement of the liability/Asset in 2021-22 and 2022-23. The Council has agreed to amend the accounts to correct for this matter, under IAS 8 the 2021-22 balances may also need to be restated if the impact in that year is material. We are currently in discussions with the Council and our technical team to finalise the amendments required.	£0	2021/22 Restated: Pension Liability £40m Pension Reserve (£40m) 2022/23: Pension Liability £42m Pension Reserve (£42m)	£0	£0
Overall impact	£0	£0	£0	£0

D. 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.

Misclassification and disclosure changes

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

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
Amendments to the Published Draft Accounts The draft statement of accounts were published on the website on 6 September 2023. However, this version of the accounts was subsequently taken down and replaced with an updated version a few days later to correct for reconciliation differences between Accounts Payable and the bank. The most significant amendment was to: DR Short Term Creditors - £72.7m CR Short Term Debtors - £25.5m CR Cash - £47.2m	Management amended the published draft accounts for these matters	✓
Note 32 - Cash Flow Statement – Adjustments to SDPS In auditing the workings behind the Cashflow Statement we identified a balance of £8.5m titled "other cash movement" which appears to be a balancing figure with no evidence provided to support the appropriateness of the balance. The value is not material however, so we are satisfied that the Cash Flow Statement and workings are materially correct.	This has not been amended for in the accounts as relates to supporting evidence for a particular balance rather than an identified error.	X
Note 46 - Transactions relating to retirement benefits The disclosure note has been updated to reflect a revised IAS 19 Actuary Report which the council obtained in June 2023 (Draft accounts prepared on April 2023 version) where balances/movements within the note have been amended but with no overall change to overall year-end values.	Management has amended the final accounts for the issues we identified.	✓
Note 36 - Related parties Additional transaction/balance information has been added for several related party organisations where, although the value of transactions is highly immaterial for the Council, the values are deemed potentially material for the related parties.	Management has amended the final accounts for the issues we identified.	✓
Note 44 - - Nature and extent of risks arising from financial instruments Our agreement of the PFI discounted values within Note 44 to supporting working papers identified a number of differences within this disclosure.	Management has amended the final accounts for the issues we identified.	✓
Presentation & disclosure amendments As a result of our manager/EL/Review partner reviews 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 final accounts for the issues we identified.	✓

D. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit, Risk & Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	CIES £m	Statement of Financial Position £m	Impact on total net expenditure £m	Impact on general fund £m	Reason for not adjusting
Completeness of expenditure Our testing of a sample of non-payroll related payments made post year end identified 3 items were expenditure related to 2022/23 but was not accrued for at year end. We conducted further work for each error to understate the cause and nature of the error and we are satisfied that expenditure recorded in the accounts is materially complete.	Other expenditure £1.6m	Creditors (£3.2m) PPE Additions £1.6m	£1.6m	£1.6m	Not material
Incorrect BCIS index applied in Valuation of Land and Buildings During our testing of revaluations made in 2022-23, we identified that some DRC assets that were valued on 1 April, were not also subsequently uprated to 31 March 2023 values as management had intended via the process detailed on page 36 of this report. For these assets the BCIS index applied in their valuation calculation had not been updated to the index as at 31 March 2023. The Council have reviewed all assets valued at 31 March 2023 to identify affected assets. The effect of this is that overall asset valuations are understated by £5.6m. This amount is below PM individually and the overall difference including the assets not valued in year, detailed at page 9, is below our materiality level so we have assurance that the valuation of Land and Buildings is materially correct.	£0	PPE £5.6m Revaluation Reserve (5.6m)	£0	£0	Not material

D. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit, Risk & Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	CIES £m	Statement of Financial Position £m	Impact on total net expenditure £m	Impact on general fund £m	Reason for not adjusting
Annual leave accrual Each year the Council make an estimate of the cost of the annual leave which staff have not taken in the year and is to be carried over into the next period. This is an estimate but based upon payroll reports for each employee showing their pay and leave not taken. Our testing of the reasonableness of this estimate identified that the accrual as at 31 March 2023 did not allow for any staff who had joined the Council in the year and so it was understated. We have used the new starter reports we obtained in the audit as well as the average accrual cost per employee (who were included in the estimate) to project the estimated understatement of the accrual.	Additional expense £2.9m	Increased Creditors £2.9m	£2.9m	£2.9m	Not material
Error on accounting for Depreciation Our testing of the valuation of land and buildings identified several instances where the accounting for valuation changes had not been properly accounted for through the CIES. Our sample testing identified £0.7m of depreciation had been written out to the Revaluation Reserve rather than to the CIES in line with the requirements of the Code. We have extrapolated this error across the whole population and the impact identified is above trivial. There is no impact on the General Fund as these adjustments are reversed out under statute.	Reduced Expenditure (depreciation reversed) (£3.1m)	Reduced Revaluation Reserve £3.1m	£0	£0	Not material
Overall impact	£1.4m	£1.4m	£4.5m	£4.5m	

Impact of prior year unadjusted misstatements

There was one adjustment identified during the 2021/22 audit which was not been made within the final set of financial statements. 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 (£1,006.156m) and the revised IAS 19 Actuary Report, post triennial valuation, (£998.195m) is not material at £7.961m. The impact of this on the SOCI would be £4.7m which is also not material.

E. Fees and non-audit services

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

Audit fees	Proposed fee	Final fee
Scale fee published by PSAA	£103,069	£103,069
Increases to scale fee for additional work not considered when the scale fee was originally set by PSAA		
Additional work in respect of the Group Audit	£5,300	£5,300
Reduced Materiality	£3,125	£3,125
Property Plant and Equipment – External Auditor Expert	£2,500	£2,500
Additional work on Value for Money (VfM) under new NAO Code	£19,000	£19,000
Increased audit requirements of revised ISAs 540	£6,000	£6,000
Additional work on journals/grants	£3,000	£3,000
FRC Response – Additional review, EQCR Review, Hot review	£1,500	£1,500
Additional work in respect of national issue on accounting for Infrastructure assets	£2,500	£2,500
Enhanced audit procedures for Payroll – Change of circumstances (unable to perform – see next page)	£500	£0
Increased audit requirements of revised ISAs 315/ 240	£5,000	£5,000
Continued on next slide		

E. Fees and non-audit services

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

Audit fees	Proposed fee	Final fee
Implementation of new ledger and additional work required for business processes/understanding of controls*	£TBC	£45,000
Engagement, and review, of the GT internal valuations team work in valuing derivative investments and liabilities held (TBC if required for 22/23)	£TBC	£3,000
Impact of delays on the audit timeframe due to the new ledger implementation	N/A	£15,000
Impact of substantive payroll testing (change in approach due to Council being unable to produce a change in circumstances report)	N/A	£10,000
Impact of batched ledger lines – generating large samples	N/A	£15,000
Additional work required under IFRIC 14 for the net pension asset	N/A	£4,000
Total Audit Fee	£151,494	£242,994

*TBC at the time of drafting the audit plan as there is significant work required to be undertaken to ascertain the full extent of the work required – we reported in the Audit Plan that we anticipated the audit fee could be circa £25k - £50k.
All variations to the scale fee will need to be approved by PSAA

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Teachers Pension Return 2022-23	£7,500	**£10,000**
Certification of Teachers Pension Return 2023-24	£12,500	**£12,500**
CFO Insights Subscription	£10,000	**£10,000**
Total non-audit fees (excluding VAT)	£30,000	£32,500

Reconciliation of Audit Fees to Note 13 of the Statement of Accounts

The audit fees per Note 13 of the accounts agree to the scale fee for 2022-23 of £103,069. The Council records the additional audit fees when they have been approved by PSAA. The fee for Grant Claims per note 13 includes £7,500 relating to the 2022-23 certification work based upon the proposed fee and an additional £1,000 in respect of the 2021-22 fee. The fee for CFO Insights agrees directly to Note 13. Note 13 also includes £53,000 of 2021-22 additional audit fees which have been approved by PSAA during the year. This agrees to the proposed additional audit fees which we disclosed in our 2021-22 Audit Findings Report.

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP

11th Floor,

Landmark St Peter's Square,

1 Oxford St,

Manchester,

M1 4PB

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Grant Thornton UK LLP

Lancashire County Council - Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of Lancashire County Council and its subsidiary undertaking, Lancashire County Developments Limited, for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the group and Council financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include valuation of property plant and equipment and investment property, the valuation of the net defined pension liability/asset, the valuation of PFI liabilities, fair value estimates, accruals and provisions. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the [group and]Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

G. Management Letter of Representation

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end.

The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. The prior period adjustments disclosed in Note [X] to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xv. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements

xvi. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

Information Provided

xvii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.

xviii. We have communicated to you all deficiencies in internal control of which management is aware.

xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xx. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

G. Management Letter of Representation

Annual Governance Statement

xxvi. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework, and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit, Risk & Governance Committee at its meeting on 22 April 2024.

Yours faithfully

Name……………………………

Position…………………………..

Date……………………………..

Name……………………………

Position…………………………..

Date……………………………..

Signed on behalf of the Council

H. Audit opinion

Our proposed audit opinion is included within the Audit, Risk & Governance Committee Papers for 22 April 2024. We anticipate we will provide the group with an unmodified audit report.