# The Audit Findings for Lancashire County Council

Year ended 31 March 2019

17 July 2019

# Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

# 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 2019 for those charged with governance.

| | | |
|---|---|---|
| **Financial Statements** | Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:<br>• 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<br>• 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.<br>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. | Our anticipated audit report opinion will be unqualified. A draft of the proposed audit opinion is detailed at Appendix E.<br>Our final accounts audit work was completed on site during June and July 2019. Our findings are summarised on pages 5 to 17 of this report.<br>One adjustment to the primary financial statements has been made by management to reflect the impact of a national legal case where events occurring in June 2019 altered the Council's initial accounting treatment. This resulted in a compensating balance sheet and comprehensive income and expenditure classification adjustment for £17.7 million in relation to the IAS19 Pension liability. There is no impact to the useable reserves of the Council as a result of this adjustment.<br>One other issue identified in 2017/18 which has an impact in 2018/19 of £3.5 million is noted on page 30 and is unadjusted by management. There is no impact to the usable reserves of the Council as a result of this issue. The decision to not adjust does not impact upon our proposed opinion. Other adjustments identified relate to minor changes in wording and were adjusted by management and do not warrant separate reporting.<br>The financial statements were prepared to a good standard, with effective quality review arrangements in place. Working papers were available on time at the start of the audit, and prepared to a good standard. Responses to our samples and other queries were comprehensive and timely.<br>We have also raised one recommendation for management as a result of our audit work as detailed in Appendix A. Our follow up of the recommendation from the prior year's audit is detailed in Appendix B and the issue from 2017/18 has been cleared.<br>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the outstanding matters listed on page 5.<br>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. |
| **Value for Money arrangements** | Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). | We anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 18 to 23.<br>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Lancashire County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Head of Audit has this year been able to complete a full programme of risk-based reviews and issued a moderate assurance opinion. Progress has been made in stabilising the Council's financial position although it is important that the momentum is maintained and actions to bridge the projected budget gaps continues. |

# Headlines

| | | |
|---|---|---|
| **Statutory duties** | The Local Audit and Accountability Act 2014 (‘the Act’) also requires us to:<br>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and<br>• To certify the closure of the audit. | We have not exercised any of our additional statutory powers or duties as part of the audit this year.<br><br>As we have previously noted there is an ongoing police investigation. As a result, we have not been able to formally close the audit of the County Council since 2012/13. Once we have had an opportunity to consider the findings from the police investigation we will be able to determine the implications for our audit and subsequently formally conclude the audits. Our findings are summarised on page 17. |

**Acknowledgements**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

# Summary

### 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 and the will be presented to the Audit, Risk and Governance Committee on 29 July 2019.

As your 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 Council and the Group's business and is risk based, and in particular included:

- an evaluation of the Council'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;
- controls testing of the Council's operating expenses, and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter or change our audit approach, as communicated to you on 27 February 2019.

### Closedown arrangements

The financial statements were received on time, and published in advance of the statutory deadline on 23 May 2019. The financial statements were prepared to a good standard with an effective quality review processes in place. Working papers were available at the start of the audit and were detailed, and clear to understand. The responses to our audit samples and queries were comprehensive and timely.

Early work was undertaken by officers to review the new accounting standards introduced during 2018/19 for International Financial Reporting Standards (IFRS) 9 and 15.

### Conclusion

We have substantially completed our audit of your financial statements and subject to the outstanding queries being resolved as listed below, we anticipate issuing an unqualified audit opinion following the Audit, Risk and Governance Committee meeting on 29 July 2019, as detailed in Appendix E. These outstanding items include:

- receipt of management representation letter;
- review of the final set of financial statements;
- review and submission of the Whole of Government Account (WGA) return;
- receipt and review of the assurance letter from the Lancashire County pension fund auditor;
- review of the auditors' assurance report for the McCloud actuarial adjustments;
- receipt of the audited financial statements and audit opinion from the Lancashire County Developments Limited external auditor;
- completion of our work on some minor disclosure notes;
- final review of the audit file by the Review Partner; and
- updating our post balance sheet review to the date of the audit opinion.

# Summary

### Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for the group and the Council.

| | Group Amount (£) | Council Amount (£) | Factors considered |
|---|---|---|---|
| Materiality for the financial statements | 32.248 million | 32.208 million | • This equates to 1.5% of your gross operating expenditure for the year and is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure. |
| Performance materiality | 24.186 million | 28.156 million | • Assessed to be 75% of financial statement materiality. |
| Trivial matters | 1.614 million | 1.61 million | • This equates to 5% of financial statement materiality. |
| Materiality for senior officers remuneration | n/a | 0.017 million | • We have determined that the senior officers remuneration is subject to lower materiality, based upon 1.75% of senior officers remuneration expenditure. |

# Significant findings – audit risks

| | Risks identified in our Audit Plan | Commentary |
|---|---|---|
| 1 | **Improper revenue recognition**<br>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.<br><br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. | **Auditor commentary**<br>There are no changes to our assessment reported in our audit plan that this risk is rebutted.<br>Having considered the risk factors set out in ISA240, and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• there is little incentive to manipulate revenue recognition;<br>• opportunities to manipulate revenue recognition are very limited; and<br>• the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable. |
| 2 | **Management override of controls**<br>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.<br>The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.<br>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. | **Auditor commentary**<br>We carried out the following work:<br>• evaluated the design effectiveness of management controls over journals;<br>• analysed the journals listing and determined the criteria for selecting high risk unusual journals;<br>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;<br>• gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and<br>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.<br>Our audit work has not identified any instances of management override of controls.<br>A recommendation is made in the Action Plan at Appendix A to strengthen existing journal authorisation processes. |

# Significant findings – audit risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| 3 **Valuation of land, buildings and investment property**<br><br>The Council revalues its land and buildings on a rolling three-yearly basis. Investment properties are revalued annually.<br><br>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.<br><br>Additionally for land and buildings, management needed to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets and investment property) at the financial statements date, where a rolling programme is used.<br><br>We therefore identified valuation of land and buildings and investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement. | **Auditor commentary**<br><br>We carried out the following work:<br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;<br>• evaluated the competence, capabilities and objectivity of the valuation expert;<br>• discussed with the valuer the basis on which the valuation was carried out;<br>• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;<br>• tested revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements and<br>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.<br><br>Our audit work on the valuation of property, plant and equipment has not identified any significant issues that we need to bring to members attention.<br><br>Our audit work confirmed that revaluations were carried out by an appropriate external expert. We are satisfied that the value of land and buildings not revalued during the year was not materially different to their reported value at 31 March 2019.<br><br>Our work on the estimation process is in the judgements and estimates section on page 12. |

# Significant findings – audit risks

| Risks identified in our Audit Plan | Commentary |
| --- | --- |
| 4 **Valuation of pension fund net liability**<br><br>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.<br><br>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.<br><br>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement | **Auditor commentary**<br><br>We carried out the following work:<br>• 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<br>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work<br>• assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation<br>• considered the impact of Brexit on investment valuations<br>• assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability<br>• 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, and<br>• undertook 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<br><br>We are awaiting the assurance from the auditor of Lancashire County 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.<br><br>We draw your attention to page 11 where a national issue relevant to all local authorities to consider and assess their circumstances impacted upon the valuation of the pension fund net liability and the pension reserve. |

# Significant findings arising from the group audit

| Component | Component auditor | Findings | Group audit impact |
|---|---|---|---|
| **Lancashire County Developments Limited** | Beevers and Struthers | • We have reviewed the consolidation undertaken by the Council and reviewed the work undertaken by the company's auditor on those entries that are material to the financial statements of the Group. | • The consolidation of Lancashire County Developments Limited has been agreed through to the supporting records of the Council and to the audited company accounts.<br>• We have received confirmation from the company auditor that there are no further issues that should be reflected in the group accounts.<br>• We await the final signed financial statements and audit opinion of the company as the Board meeting is being held on 22 July 2019 to sign the financial statements. |

# Significant findings - other issues

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

| | Issue | Commentary |
|---|---|---|
| 1 | **Net Pension Liability – McCloud judgement**<br>The Court of Appeal has ruled in June 2019 that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.<br>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.<br>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other public sector pension schemes where they have implemented transitional arrangements on changing benefits.<br>Discussion has been ongoing through June and July in the sector regarding the impact of the ruling on the financial statements of Local Government bodies.<br>Many bodies had initially included the impact of the McCloud judgement as a contingent liability in their 2018/19 accounts. However as the picture has now become clearer there is now a general acceptance that the increased liability, where material, should be reflected in the IAS 19 figures in the balance sheet. | **Auditor commentary**<br>• The Council has reviewed their judgement and accounting treatment for the McCloud ruling, as the draft financial statements did not include the impact of the case in the Pension liability figures provided by the Actuary. With the Government denied leave to appeal the ruling in June 2019, the Council's view was updated as it is now probable that the McCloud judgement impacted upon the calculations as at 31 March 2019.<br>• The Council requested the Actuary to perform a review of the impact of the McCloud case and the figures increased the Pension Liability and associated disclosures by £17.7 million  Additional narrative disclosure was also added to explain the McCloud case and the adjustment is reflected in the final version of the financial statements.<br>• We have confirmed that the figures from the Actuary have accurately been reflected within the final set of financial statements.<br>• We are reviewing work from our internal actuaries to provide us with assurance over the assumptions and methods employed by Mercers in compiling the McCloud liability estimates. |

# Significant findings – key judgements and estimates

| | Summary of management's policy | Audit Comments | Assessment |
|---|---|---|---|
| **Land and Buildings – £2,021.9 million**<br><br>**Investment Property - £47.5 million** | Land and buildings comprises specialised assets such as schools, waste treatment plants, libraries, residential, day care and respite homes. These 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 including offices are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.<br><br>Investment property and surplus assets are required to be valued annually and at fair value.<br><br>The Council has engaged their internal valuer to complete the valuation of land and buildings. The internal valuers carry out their valuations as at 1 April 2018. Waste treatment plants are reviewed by the valuer Rushtons. Investment properties that are part of the group's subsidiary Lancashire County Developments Limited are reviewed by Cushman and Wakefield.<br><br>The Council re-values their land and buildings on a rolling programme over a maximum of a three yearly cyclical basis. 100% of investment property and surplus assets were revalued at 31 March 2019, as required by accounting standards.<br><br>48% of land and building assets that are subject to valuation were revalued during 2018/19. The valuation of land and buildings valued by the valuer has resulted in a net increase of £207.2 million.<br><br>Management have considered the year end value of non-valued land and buildings, and the potential valuation change in the assets revalued at 31 March 2019, to determine whether there has been a material change in the total value of these properties. As part of management's consideration, this includes the assessment of any movement to 31 March 2019 as the assets revalued in 2018/19 are valued at 1 April 2018. Management's assessment of assets not revalued has identified no material change to the value. | We reviewed the detail of your assessment of the estimate, considering;<br>• the assessment of management's expert, your internal valuer;<br>• the completeness and accuracy of the underlying information used to determine the estimate;<br>• the reasonableness of the overall increase in the estimate; and<br>• the adequacy of the disclosure of the estimate in the financial statements.<br><br>There are no issues to raise from the work carried out on the estimate.<br><br>We have reviewed and challenged management's assessment of the potential impact of those assets not formally revalued this year. Having received the responses to our queries we are satisfied that management has taken a reasonable approach to its assessment in this area. | ● (green) |

**Assessment**

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

# Significant findings – key judgements and estimates

| | Summary of management's policy | Audit Comments | Assessment |
|---|---|---|---|
| **Net pension liability – £1,221.6 million** | The Council's net pension liability at 31 March 2019 is £1,221.6 million (PY £1,132 million) comprising the Local Government Pension Scheme and unfunded defined benefit pension scheme obligations. Liability figures are higher than the previous year mainly due to a general fall in corporate bond yields, and the increase in the market expectations of inflation.<br><br>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 in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. | We reviewed the detail of your assessment of the estimate, considering;<br>• the assessment of management's expert, Mercers;<br>• the completeness and accuracy of the underlying information used to determine the estimate;<br>• the reasonableness of the Council's share of the LGPS assets;<br>• the reasonableness of the overall increase in the estimate;<br>• the adequacy of the disclosure of the estimate in the financial statements.<br>External auditors are provided with assurance in the form of an auditors expert report from PWC to assess the assumptions made by the Actuary, the table below sets out the key assumptions. | Green |

| Assumption | Actuary Value | Within PWC Report ranges | Assessment |
|---|---|---|---|
| Discount rate | 2.4% to 2.5% | Yes | Green |
| CPI inflation | 2.2% to 2.3% | Yes | Green |
| Life expectancy – Males over 65 | 22.2 – 23.7 years | Yes | Green |
| Life expectancy – Females over 65 | 25.0 – 26.4 years | Yes | Green |

Other than the issue already noted on page 11 regarding the McCloud judgement, there are no further issues to note from the work carried out.

**Assessment**

- (Red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- (Amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- (Yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- (Green) We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

| | Significant matter | Commentary |
|---|---|---|
| 1 | Significant events or transactions that occurred during the year | • The implementation of new accounting standards IFRS9 and IFRS15 from 1 April 2018 were discussed with officers during 2018/19. The impact of the new accounting standards have been disclosed within the financial statements.<br>• There has not been a material impact to the financial statements as a result of the implementation of IFRS9 and IFRS15, with movements in the classification of financial instruments disclosed within the financial statements. Management provided us with detailed working papers setting out their assumptions and judgements for the implementation of IFRS9 and IFRS15.<br>• The Council redeemed during 2018/19 their inverse floating Lender Option Borrower Option loans (LOBO). There is disclosure within the financial statements in the material items of income and expenditure note. |
| 2 | Business conditions affecting the group, and business plans and strategies that may affect the risks of material misstatement | • No such issues were identified. |
| 3 | Concerns about management's consultations with other accountants on accounting or auditing matters | • No such issues were identified. |
| 4 | Discussions or correspondence with management in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services | • We were re-appointed as auditors of Lancashire County Council for five years from 2018/19. We issued our fee letter for 2018/19 on the 20 April 2018 and presented this to the Audit , Risk and Governance Committee on 30 July 2018.<br>• We issued our 2018/19 Audit Plan on 27 February 2019 and presented this to the Audit, Risk and Governance Committee on 20 May 2019. |
| 5 | Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information | • No such issues were identified. |
| 6 | Other matters that are significant to the oversight of the financial reporting process | • No such issues were identified. |
| 7 | Internal Control matters | • Our review of the Information Technology control environment identified some recommendations for management, with an agreed Action Plan in place. None of the issues raised are of significance to raise with those charged with governance as they did not impact upon our audit approach. We will follow up the recommendations as part of our 2019/20 audit. |

# Going concern

### 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).

### Going concern commentary

| Management's assessment process | Auditor commentary |
|---|---|
| The Council has reviewed their going concern position and has concluded that it is appropriate to produce their accounts on a going concern basis and no material uncertainties exists. | • The Council’s use of the going concern basis of accounting is appropriate.<br>• The Council’s has provided us with its working paper for its assessment of going concern.<br>• The disclosure of the going concern basis within the financial statements is satisfactory. |
| **Work performed** | **Auditor commentary** |
| We discussed the financial standing of the Council with the Head of Finance and reviewed management's assessment of going concern and the assumptions and supporting information. | • No material uncertainty identified.<br>• Our work on financial standing confirmed that the Council has planned to use £44.8 million of reserves to be able to set a balanced budget for 2018/19, but only £25.5 million of this was required due to a reported underspend position of £19.3 million. The Council has identified that it has sufficient reserves to meet its obligations up until 2022/23 as part of the Medium Term financial Strategy projections, with savings plans work continuing to identify and close the remaining structural deficit. |
| **Concluding comments** | **Auditor commentary** |
| The Council’s use of going concern basis of accounting is appropriate. | • Our opinion is expected to be unmodified in respect of the going concern conclusion. |

# 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 |
|---|---|---|
| 1 | **Matters in relation to fraud** | • We have previously discussed the risk of fraud with the Audit, Risk and Governance Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures. |
| 2 | **Matters in relation to related parties** | • We are not aware of any related parties or related party transactions which have not been disclosed. |
| 3 | **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. |
| 4 | **Written representations** | • A standard letter of representation has been requested from the Council. There is one unadjusted misstatement as noted on page 30, and this will be included in the Letter of Representation.<br>• The draft letter of representation is included as an agenda item at the Audit, Risk and Governance Committee meeting on 29 July 2019. |
| 5 | **Confirmation requests from third parties** | • We obtained direct confirmation from PWLB for loans and requested from management permission to send confirmation requests to the Council's bankers and those with whom it placed investments and other borrowings. This permission was granted and requests were sent. All of these requests were returned with positive confirmation. |
| 6 | **Disclosures** | • Our review found no material omissions in the financial statements. |
| 7 | **Audit evidence and explanations/significant difficulties** | • All information and explanations requested from management was provided.<br>• The financial statements were received on time, and published one week in advance of the statutory deadline.<br>• The financial statements were prepared to a good standard with embedded quality review processes in place.<br>• Working papers were available at the start of the audit and were detailed, and clear to understand.<br>• The responses to our audit samples and queries were comprehensive and timely. |

# Other responsibilities under the Code

| | Issue | Commentary |
|---|---|---|
| 1 | **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 and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect which is detailed in Appendix E. |
| 2 | **Matters on which we report by exception** | We are required to report on a number of matters by exception, namely:<br>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit<br>• If we have applied any of our statutory powers or duties<br>There are established processes within the Council to produce and review the Annual Governance Statement.<br>We have nothing to report on these matters. |
| 3 | **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.<br>As the Council exceeds the specified group reporting threshold of £500 million, 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 we plan to complete this in line with the financial statements deadline. |
| 4 | **Certification of the closure of the audit** | We do not expect to be able to certify the completion of the 2018/19 audit of Lancashire County Council in our auditor's report, as detailed in Appendix E 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. |

# Value for Money

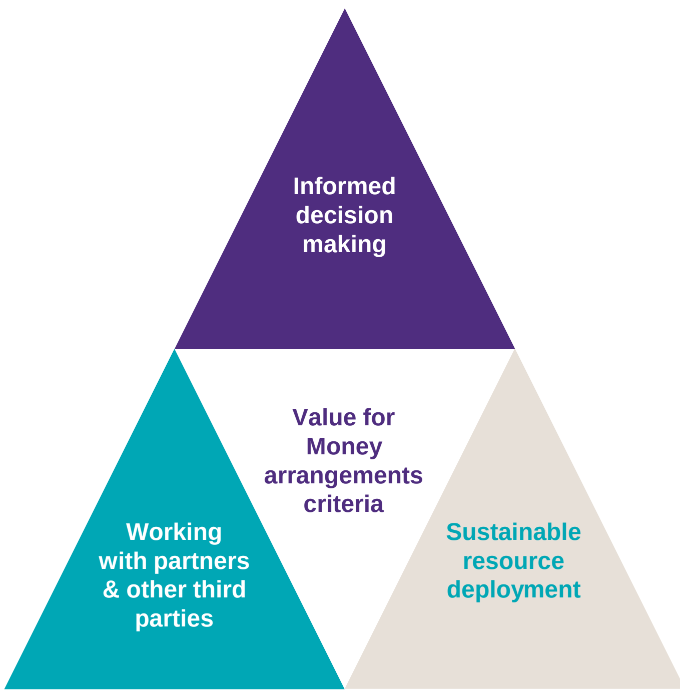
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

*"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."*

This is supported by three sub-criteria, as set out below:




## Risk assessment

We carried out an initial risk assessment in January 2019 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 27 February 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

The significant risks areas we identified were:

- internal control; and
- financial resilience.

In arriving at our conclusion, our main considerations were:

- the robustness of the Medium Term financial Strategy (MTFS) and the reasonableness of the underlying assumptions;
- the in year budget monitoring arrangements;
- the challenge of the on-going savings programme facing the Council during the period of the MTFS; and
- internal control following the Head of Internal Audit's assurance opinion.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 20 to 22. Our work on financial resilience is reported in greater detail to reflect the work undertaken in 2018/19 to assess the MTFS and savings plans projections.

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings – internal control

We set out below our key findings against the internal control significant risk we identified through our initial risk assessment.

| | Significant risk – Planned work | Findings | Conclusion |
|---|---|---|---|
| 1 | **Internal Control**<br>The Council's Head of Internal Audit (HoIA) opinion for 2017/18 provided limited assurance on the Council's overall system of internal control because the plan did not provide for coverage of the Council's full internal control system. This resulted in an 'except for' VFM Conclusion qualification in 2017/18.<br><br>As a result, this area was included as a significant risk and area of focus for 2018/19 as part of the 'informed decision making' sub-criteria.<br><br>We reviewed the HoIA's opinion and the Annual Governance Statement (AGS) to confirm that the work completed and management's assurances are reflected. | • We have reviewed the work of internal audit during 2018/19 including the outcome of individual reports in risk areas, and the conclusion reached by the Head of Internal Audit in her annual opinion to the Council.<br>• The Council's HoIA opinion for 2018/19 issued in May 2019 provided moderate assurance on the Council's overall system of internal control.<br>• The audit work covered the full range of the Council's services as well as each element of the control framework.<br>• 2018/19 Internal Audit reports finalised to July 2019 since the HoIA opinion would not have altered the opinion given.<br>• The AGS includes a summary of the HoIA opinion as well as other risk areas noted in the opinion. | **Auditor view**<br>• The Council received a 'moderate' assurance opinion for the first time in the last six financial years, with Internal Audit coverage across the Council's services.<br>• The AGS reflects the work completed by Internal Audit and management's assurances.<br>• There are adequate arrangements in place during 2018/19 over the Council's arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of sound governance.<br>• Our value for money conclusion opinion is unqualified in 2018/19. |

## Key findings – financial resilience

We set out below our key findings against the financial resilience significant risk we identified through our initial risk assessment.

### Overview

The Council faces a significant challenge over the next few years to address a structural deficit in its budget position. Addressing this gap will require the delivery of £120 million of planned savings and a further £47 million of savings as yet unidentified, in order to close the projected funding gap and restore the Council to a balanced financial position by the end of 2022/23.

Whilst the challenge is significant the Council has significant reserves to draw on, centred around the Transitional Reserve of £164.2 million at the end of 2018/19 (equivalent to 5% of the net cost of services of £833 million). Based on current MTFS projections the level of reserves should enable the Council to bridge the budget gap up to the year 2022/23, while the remaining structural deficit is closed.

### Financial performance 2018/19

The Council reported a financial outturn for the year ending 31 March 2019 as an underspend on budget of £19.3 million. It should be noted that the Council had planned to deploy £44.8 million of its reserves to deliver a balanced budget, but only £25.5 million of this was required leaving the remainder available to support the financial position in future years.

The underspend reflects the net position of unplanned cost pressures and benefits arising in the year. Within this position, there are new cost pressures that may be structural, and if so may have to be factored into the MTFS as recurrent increases in costs unless they can be managed.

In addition, many of the benefits contributing to the net underspend are due to one-off conditions and so will not help address the underlying structural deficit. This includes the £3.9 million underspend in Public Health and Wellbeing which is partly due to carrying staff vacancies, and the net £27.6 million benefit arising partly from Treasury bond sales and reduced borrowing costs in year.

We note that the Adult Social Care delivered to budget with the assistance of additional funding from the precept and enhanced better care fund. We also note that there was a deficit on schools spending as a result of Dedicated Schools Grant not being sufficient to cover the cost of services, that was funded from the Schools reserve.

The Council should continue to look for opportunities to reduce the call on reserves in future years of the MTFS, with a view to fully closing the gap through recurrent savings. It should be noted that once reserves are expended they cannot be replenished except through generating a surplus in future years.

### Financial planning (MTFS) 2019/20 to 2021/22

The Council's current MTFS projects a funding gap that builds to £47 million by the end of 2022/23. This assumes that £120 million of planned savings will be successfully delivered in the period. The remaining £47 million gap equates to a further 6% reduction in the net cost of services over three years. This remains highly challenging and it is important that the momentum for change established over the last two years is maintained and financial control remains robust.

It is likely that the Council and its elected members will need to continue to make some difficult choices about service provision in order to restore a balanced financial position, and it will be important to maintain an effective dialogue with residents.

The Council has taken a relatively prudent approach to its financial planning assumptions that underpin this position. Overall, the assumptions appear to be reasonable based on the available information and the approach taken by other councils. Key assumptions include:

- The Council will be taking part in the governments 75% Business Rates retention pilot, and business rate projections have been adjusted to reflect this.
- As part of this pilot, Revenue Support Grant will reduce to zero from 2019/20.
- There is an adult social care precept increase of 1% in 2019/20, but is not assumed to increase thereafter.
- Additional adult social care grants, and enhanced better care fund monies are projected to continue through the period. We note that this funding is not confirmed beyond 2019/20, but our experience across other Councils indicates that this assumption is not out of step with expectations.
- Council tax is assumed to increase by 1.99%, subject to a new council decision each year, this is in addition to projected growth in the base of 1-2%. We note that a decision by members not to increase council tax in any one year would significantly increase the unfunded revenue deficit.
- Key cost pressures factored into the position arise from the national pay award, national living wage, inflation and demand pressures particularly in adults and children's social care, waste and transport services. These are broadly in line with what we would expect to see, based on our knowledge of other councils.

# Key findings – financial resilience

## Financial governance - savings plans

The Council's future financial sustainability depends on the successful delivery of its savings programme and Phase 2 of the 'Service Challenge' transformation process.

During 2018/19 £68.1 million of planned savings were delivered. This includes the early delivery of savings scheduled for 2019/20, including in adult social care, waste and transport. The Council can therefore demonstrate a good track record in delivering planned savings targets in 2019/20.

The current MTFS indicates that a further £77 million of savings have been agreed by Cabinet and are planned for delivery in 2019/20. This has been achieved through over 40 individual service challenge reviews as part of the programme.

Savings proposals arising from the Service Challenge process are documented using a standard template. Savings flagged as requiring consultation and these are subject to an additional approval process. We note that £7.5 million of these savings were contingent on the outcome of further consultation.

The Savings template covers the phasing of financial benefits over the MTFS period up to 2021/22 and the investment requirement. The template also include a section on the non-financial impact on the service, dependencies and an assessment of risk.

## Financial governance – monitoring

The delivery of savings in excess of plan for 2018/19 provides some assurance that the Council's process for delivering savings is robust and effective. The savings programme is closely monitored by the Programme Office and the finance team Finance.

Progress is reported at least monthly to the Corporate Management Team (CMT). The financial position is regularly reported to Cabinet quarterly via the 'Money Matters' monitoring reports. Review of these reports over the year indicates an improving forecast outturn position, culminating in the better than expected financial performance at year end.

## Impact of Brexit and other risks

The Council has taken steps to develop resilience in the MTFS to manage uncertainties and risks. The Council's MTFS is underpinned by scenario analysis. This includes analysis of the impact on the financial position if the £7 million of savings that required consultation prior to implementation were not progressed, which concluded that there remain sufficient reserves to support the budget until part way through 2022/23.

A Brexit impact assessment was carried out at the request of members and the financial planning process has considered Brexit related risks. This includes the impact that it could have on cost inflation in social care costs resulting from difficulties in recruiting carers.

## Reserves

The Council has significant reserves available to manage the projected financial deficits over the MTFS period up to 2023. Total usable reserves as at 31 March 2019 were £240.7 million (excluding schools) of which £164.2 million is contained in the Transitional reserve set aside to help sustain the Councils financial position during transformation. The transitional reserve is equivalent to 20% of the net cost of services in 2018/19.

The Council has been supporting its revenue position using reserves since 2015/16. While this is a legitimate approach to managing a deficit of income over expenditure in the short term, it is not a sustainable position in the medium to long term. There are currently, sufficient Transitional reserves to continue to cover the current projected deficit up to 2022/23. However, the Council rightly recognises that failure to address the underlying deficit over the MTFS period could lead to the inability to set a balanced budget in 2023/24, with the projected deficit of £47 million exceeding the projected available reserves.

# Key findings – financial resilience

## Conclusion

There are adequate arrangements in place during 2018/19 over the financial resilience of the Council. Our opinion in this area is unqualified.

The Council's financial position remains challenging and continuing reliance on reserves is recognised as unsustainable.

The savings programme and budget gap remains highly challenging, and it is important that the momentum for change established over the last two years is maintained and financial control remains robust.

We will continue to track the outcomes from the savings programme and its delivery on an on-going basis in 2019/20.

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

### 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 Council. The following non-audit services were identified.

| | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| **Audit related** | | | |
| Agreed upon procedures report –Teachers' Pensions return | 4,200 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,200 in comparison to the total fee for the audit of £87,006 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. |
| **Non-audit related**<br>Chief Finance Officer (CFO) Insights | 9,000 | Self-Interest (because this is a recurring fee) | The fee is the annual subscription for 2018/19, with the subscription contract until 31 March 2020. 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 £9,000 in comparison to the total fee for the audit of £87,006 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 Council's policy on the allotment of non-audit work to your auditors. All services have been agreed by management and are those set out in our Audit Plan. None of the services provided are subject to contingent fees.

The work on the Teachers Pension return has not yet started, with the expected completion of the agreed upon procedures in line with the national deadline by the end of November 2019.

# Independence and ethics

On page 24 we listed the other services provided to Lancashire County Council. 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 holding 50%. Details of the work performed, and the fees charged, are shown below for transparency purposes. However we are satisfied that this work has no impact on our independence for the audit of Lancashire County Council for the reasons mentioned below.

| Service | £ | Threats | Safeguards |
|---|---|---|---|
| **Audit related** | | | |
| Local Pensions Partnership<br><br>Authorised Contractual Scheme and investment funds structures audit | Not yet confirmed | Self Review | 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. These are different Engagement Leads 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. |

# Action plan

We have identified one recommendation for the Council 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 the recommendation during the course of the 2019/20 audit. The matter reported here is 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 |
|---|---|---|---|
| 1 | ● Medium | • Manual journals within the financial ledger are input by approved personnel, but they are not subject to authorisation controls at the time of input.<br>• The risk is that the lack of authorisation controls at the time of input creates a higher level of risk of error or manipulation. | • Review the authorisation procedures in place over journal input.<br>**Management response**<br>• There are personnel controls in place whereby only finance staff are able to 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. |

**Controls**

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

# Follow up of prior year recommendations

We identified the following issue in the audit of Lancashire County Council's 2017/18 financial statements, which resulted in one recommendation being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented our recommendation.

| | Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|---|
| 1 | ✓ | • The Council's assets are revalued at 1 April, but as the revaluations are carried out during the year the depreciation was entered in the month the asset was revalued instead of 1 April, leading to an under statement of depreciation and overstatement of the asset balance. It was established that the impact from this practice was not significant to the financial statements.<br>• A recommendation was made that the Council reviews this process in future years. | • The Council manually adjusts the depreciation charge to ensure that depreciation is charged from 1 April for all assets revalued from 2018/19 onwards.<br>• The impact for any assets that have not been revalued in 2018/19 is noted as an unadjusted misstatement on page 30. |

**Assessment**
✓ Action completed
X Not yet addressed

# 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 2019.

| | Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total useable reserves £'000 |
|---|---|---|---|---|
| 1 | **McCloud judgement**<br>The Council reviewed their judgements and accounting treatment for the McCloud legal ruling, as the draft financial statements did not include the potential impact of the case in the Pension liability figures provided by the Actuary. With the permission to appeal being unsuccessful in June 2019, the Council's view was updated as it was more probable that the McCloud judgement impacted upon the calculations as at 31 March 2019<br>The Council requested the Actuary to perform a review of the impact of the McCloud case and the figures increased the Pension Liability and associated disclosures by £17.7 million. | 17,700<br>Cost of Services<br><br>(17,700)<br>Reversal through allowable adjustments between accounting basis and funding basis in the general fund | (17,700)<br>Pension Liability<br><br>17,700<br>Pension Reserve | 0<br><br><br>0 |
| | **Overall impact** | £0 | £0 | £0 |

# Audit Adjustments

### Misclassification and disclosure changes

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

| Disclosure omission | Detail | Adjusted? |
|---|---|---|
| **Presentation and consistency** | A small number of minor changes have been made to the wording and presentation of existing disclosure notes in the financial statements to improve their clarity and consistency. None are significant to warrant disclosing separately. | ✓ |

# Audit Adjustments

### Impact of unadjusted misstatements

There are no unadjusted misstatements identified for new issues identified during 2018/19. Note that the below item is unadjusted relating to an issue identified in the prior year audit that has relevance to the 2018/19 financial statements.

### Impact of prior year unadjusted misstatements

The table below provides details of unadjusted misstatements identified during the prior year audit which have an impact upon the 2018/19 financial statements. The Audit, Risk and Governance Committee at the meeting on 29 July 2019 is required to approve management's proposed treatment of the item set out below.

| | Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on Reserves£'000 | Reason for not adjusting |
|---|---|---|---|---|---|
| 1 | In 2017/18 the Council revalued its assets as at 1 April 2017. However, as these assets were actually being revalued throughout the year the new valuations were entered onto the asset register when they were received. The revalued assets were depreciated from the date they were entered onto the asset register rather than from the date of the valuation which was 1 April 2017. The impact is that Property, Plant and Equipment (PPE) is overstated with a corresponding understatement of depreciation in the year.<br>During 2018/19 any assets revalued have depreciation recorded correctly from 1 April, but any assets not subject to revaluation in 2018/19 will have incorrect values of depreciation recorded. Note that this issue will reduce to nil at the end of the three year revaluation cycle as all assets are revalued.<br><br>The amounts involved that are relevant to 2018/19 are: | | | | The values are not material, and the amounts will decrease to nil over the next two financial years as these assets are revalued. |
| | Property, Plant and Equipment | | (3,558) | | |
| | Depreciation in 2017/18 | 3,558 | | | |
| | **Overall impact** | **£3,558** | **(£3,558)** | **£0** | |

Note that one other item reported in 2017/18 within unadjusted misstatements has no continuing misstatement impact for 2018/19. Some items recorded as revaluations in error in 2017/18 for £2.614 million have all been subject to valuation in 2018/19, therefore correctly reflected within the 2018/19 financial statements.

# Fees

We confirm below our final fees charged for the audit and the fees for other services and we confirm that the other services were audit related..

## Audit Fees

| | Proposed fee £ | Final fee £ |
|---|---|---|
| Council Audit | 87,006 | 90,006 |
| **Total audit fees (excluding VAT)** | **£87,006** | **£90,006** |

- Additional work was undertaken due to a national accounting issue that impacted on all authorities and required additional audit time to be spent on the work carried out for the pensions IAS19 balances and disclosures. The £3,000 will be subject to PSAA approval, and this will be submit to PSAA at a future date.
- The audit fees note within the financial statements will not include the £3,000 additional fee as it has yet to be agreed with PSAA.

## Non Audit Fees

| Fees for other services | Fees £ |
|---|---|
| **Audit related services:** | |
| • Agreed upon procedures report – Teachers' Pension return | 4,200 * |
| **Non-audit services** | |
| • CFO Insights | 9,000 |
| | **£13,200** |

* The work on the Teachers Pension return has not yet started, with the expected completion of the agreed upon procedures in line with the national deadline by the end of November 2019.

# Draft proposed audit opinion

**We anticipate we will provide the Group with an unmodified audit report**

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

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Lancashire County Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement the Group Balance Sheet and the Group Cash Flow Statement and all notes to the financial statements, including the technical annex and the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

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

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Executive and Director of Resource's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Executive and Director of Resource has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

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

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

We have nothing to report in this regard.

# Draft proposed audit opinion

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

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

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

As explained more fully in the Statement of Responsibilities set out on page 22, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Executive and Director of Resources. The Chief Executive and Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Executive and Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### Auditor's responsibilities for the audit of the financial statements

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

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

# Draft proposed audit opinion

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

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### Responsibilities of the Authority

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2019 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of matter brought to our attention by the Authority in 2013. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### Use of our report

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

*To be signed*

Robin Baker, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Liverpool

**To be dated**

Grant Thornton



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