Grant Thornton

Audit Findings (Revised)

Year ending 31 March 2018

Lancashire County Council

22 August 2018

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 issues arising from the statutory audit of Lancashire County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income 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 Statement of Accounts, 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 audit work was completed on site during June, July and August. Our findings are summarised on pages 4 to 14. We have identified a number of adjustments and disclosure changes to the financial statements, these are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. We anticipate issuing an unqualified audit opinion on the financial statements following the Audit, Risk and Governance Committee meeting on 28 August 2018, as detailed in Appendix E . These outstanding items include: - receipt of updated management representation letter; - updating our Post balance sheet events review, and - review of the final set of financial statements. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with 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 whether, 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 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, except for;: - the Head of Internal audit issuing a 'Limited Assurance' opinion for 2017/18. We therefore anticipate issuing a qualified 'except for' value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 16 to 20.
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 • certify the closure of the audit	We are unable to certify the conclusion of the audit. This is because we cannot formally conclude the audit of the accounts from 2012/13 onwards until we have completed our consideration of matters arising from 2012/13.

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.

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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 will be presented to the Audit, Risk and Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (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 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 components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response.
- An evaluation of the Council's internal controls environment including its IT systems and controls; and
- 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 we anticipate issuing an unqualified audit opinion following the Audit, Risk and Governance Committee meeting on 28 August 2018, as detailed in Appendix E. These outstanding items include:

- receipt of management representation letter;
- Updating our post balance sheet events review, and
- review of the final set of financial statements.

Our approach to materiality

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

Materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for the Group and Council. We have set a separate materiality for disclosure of Officers remuneration.

	Group and Council Amount (£)
Materiality for the financial statements	£34,670,000 (1.5% of gross revenue expenditure)
Performance materiality	£26,002,000 (75% of overall materiality)
Trivial matters	£1,733,500 (5% of overall materiality)
Materiality for specific transactions, balances or disclosures	Officers remuneration - £32,835 (1.75% of Officer expenditure)

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Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a 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. **We do not consider this to be a significant risk for Lancashire County Council.**
2	**Management override of controls** 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. We identified management override of controls as a risk requiring special audit consideration.	**We have:** • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness; • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; • evaluated the rationale for any changes in accounting policies or significant unusual transactions. **Our audit work on journals has not identified any issues in respect of management override of controls that we need to bring to members attention.**

Significant audit risks (continued)

	Risks identified in our Audit Plan	Commentary
3	**Valuation of property, plant and equipment** The Council revalues its land and buildings on a three year cyclical basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration**.**	**We have:** • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • considered the competence, expertise and objectivity of any management experts used; • Discussed with the valuer about the basis on which the valuation is carried out and challenged the key assumptions; • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; • tested revaluations made during the year to ensure they are input correctly into the Council's asset register; • 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. **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.** 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 2018. Our work on revaluations did identify two issues: • 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 by £3.976 million with a corresponding understatement of depreciation in the year; • Our detailed testing of revaluations identified assets that were recorded in error by the valuer as being revalued in 2017/18. As a result, these assets were subsequently treated as revaluations in the asset register and the draft financial statements. This meant Property, Plant and Equipment was overstated by £2.518m, Revaluation Reserve overstated by £2.6 million.

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Significant audit risks (continued)

Risks identified in our Audit Plan	Commentary
4 **Valuation of pension fund net liability** The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	**We have:** • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made; • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. **Our audit work on the valuation of the pension fund net liability did not identify any issues that we need to bring to members attention.**

Significant audit risks

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

	Issue	Commentary	Conclusion
1	**Valuation of inverse floating Lender Option Borrower Option Loan.** The Council took out 2 inverse floating Lender Option Borrower Option (LOBO) loan for a total value of £50m in 2010. The Authority has in its financial statements made a critical judgement regarding the accounting treatment and valuation of this loan during the year. We therefore identified the valuation and accounting for inverse floating LOBO loans as a significant risk, which was one of the most significant assessed risks of material misstatement.	During the year guidance has been issued by the National Audit Office and clarifications have been made by CIPFA in relation to the accounting for LOBO loans with inverse floater (or similar terms). We have engaged with the Finance team since February 2018 to understand the accounting treatment and valuation method used by Lancashire County Council regarding this loan. Our audit work included, but was not restricted to: • assessing management's processes and assumptions for identifying critical judgements; • gaining an understanding of the processes and the controls put in place by management to ensure that the loans were not materially misstated and evaluating the design of the associated controls • evaluating the competence, capabilities and objectivity of management experts used in the valuation of the loans • discussing with management the basis on which the valuation was carried out, including advice received from treasury management advisers; • evaluating and challenging the reasonableness of the critical judgements and significant assumptions used by management and their expert in valuing and accounting for the loans. The Authority has made a critical judgement regarding the accounting treatment and valuation its inverse floating LOBO loans, determining the valuation of this loan during the year to be in accordance with International Accounting Standard (IAS) 39 Auditor Guidance note 7. This has been a protracted process and has involved technical advice being received by the Council from its Treasury Management Advisors, and by ourselves as your auditors through our in-house financial instruments technical experts.	The Council has provided us with additional information regarding the nature of the contract and this has impacted on our view of the accounting treatment and method of valuation. There a various options for valuing such loans under IAS 39, using Auditor Guidance note 7, as preferred by the Council or using Auditor Guidance note 8. The latter potentially has a significant impact on the Council's revenue position and reserves. There have been differing views as to the interpretation of the relevant accounting treatment during the past months around the interpretation of the accounting standards. Since the Audit, Risk and Governance Committee meeting on 30 July 2018 the firm has now taken external advice on the inverse LOBO accounting treatment and has concluded: - Whilst the firm's preferred route continues to be AG8, we acknowledge that AG7 is also a permissible route - On this basis, we will not be proposing any amendments to the primary financial statements - We do however feel It is important that the accounts include appropriate disclosure around the basis of the judgement made by the Council (to account for LOBO's under AG7 which we believe to be a critical judgement). **We concluded that we have obtained sufficient audit assurance to conclude that:** **• the basis of the accounting for inverse floating LOBO loans and the assumptions and processes used by management in determining the valuation were reasonable; and,** **• the valuation of the Authority's inverse floating LOBO loans disclosed in the financial statements are reasonable.** **We recommend that the Authority add some additional disclosures into the financial statements to clearly describe the critical judgements they had made in this respect. These were added in note [x] to the financial statements**

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Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
7	**Employee remuneration** Payroll expenditure represents a significant percentage of the Council's operating expenses. As the payroll expenditure comes from a number of individual transactions and an interface with Oracle payroll system there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.	**We have:** • evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness; • gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls; • tested the reconciliation of payroll expenditure to ensure the amount in the accounts can be reconciled to the general ledger and through to payroll reports. Investigated any significant adjusting items; • agreed payroll related accruals (e.g. unpaid leave accrual) to supporting documents and reviewed any estimates for reasonableness; • performed a monthly analytical review on payroll costs. Investigated any unusual fluctuations. **Our audit work on employee remuneration did not identify any issues that we need to bring to members attention.**
8	**Operating expenses** Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	**We have:** • evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls; • obtained a listing of non-pay payments made in April 2018, take a sample, and ensured that they have been charged to the appropriate year; • reviewed the year-end accounts payable reconciliation, and investigated any significant reconciling items. **Our audit work on operating expenses did not identify any issues that we need to bring to members attention.**

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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	Auditor commentary
Management's assessment process 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 the concern basis of accounting is appropriate; • The Council's has provided us with its working paper for its assessment of going concern.
Work performed We discussed the financial standing of the Council with the Head of Financial Services and reviewed management's assessment of going concern and the assumptions and supporting information.	• No material uncertainty identified. • Our work on financial standing confirmed that the Council has planned to use £42.0 million of reserves to be able to set a balanced budget for 2018/19. The Council has identified that this is not a sustainable approach but has sufficient reserves to meet its obligations up until 2019/20 and part of 2020/21.
Concluding comments The Council's use of going concern basis of accounting is appropriate.	• Our opinion is unmodified in respect of the going concern conclusion.

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	**Minimum revenue provision (MRP)** The Local Authorities (Capital Finance and Accounting) Regulations 2003 require local authorities to charge to their revenue account in each financial year an amount to finance capital expenditure, commonly referred to as the Minimum Revenue Provision	The Council has re-visited its policy in this area following advice from the Local Government Association and in advance of changes to the regulations. The Council has also taken external legal advice regarding this matter. The change of policy releases an additional £134m of resources over 50 years with additional revenue resources of £13.2m becoming available in 2017-18 and £9.2m in 2018-19.	**Auditor view** We have reviewed the Council's policy and the legal advice received with regard to the change of MRP policy and its impact. Other authorities have already successfully implemented similar changes. On the basis of the evidence provided to us including the legal advice, we are not minded to challenge the approach being taken by the Council.

Significant 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	No issues to report.
2	Business conditions affecting the group and Council and business plans and strategies that may affect the risks of material misstatement	No issues to report.
3	Concerns about management's consultations with other accountants on accounting or auditing matters	No issues to report.
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 will present it to the Audit, Risk and Governance Committee on 28 August 2018.
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	As identified on page 8 we have had significant discussions with management regarding one key issue; the accounting treatment for its inverse floating LOBO loans. This item is covered in detail earlier in our report.
6	Other matters that are significant to the oversight of the financial reporting process.	No issues to report.

Significant findings arising from the group audit

Component	Work completed	Findings and Group audit impact
Lancashire County Developments Limited	• Targeted review performed by Grant Thornton UK LLP. • 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 has been agreed through to the supporting records of the Council and the company accounts. • We have received confirmation from the company auditor that there are no further issues that should be reflected in the group accounts.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• The Council's accounting policy on the accruals of income confirms that income is accounted for in the year in which the activity it relates to takes place regardless of when cash payments are received. • income from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council; • Income from the provision of services is recognised when the Council can measure reliably the percentage completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council.	Our review of the Council's accounting policies has not highlighted any issues which we wish to bring to your attention. Policies are in accordance with the requirements of the CIPFA Code of Practice.	GREEN
Judgements and estimates	• Key estimates and judgements include: – future funding – Private Finance Initiative (PFI) – useful life of PPE – revaluations – fair value estimates (including LOBO loans) – valuation of pension fund net liability	We have reviewed the Council's judgements and estimates against the requirements of the CIPFA Code of Practice. • Where the Council has made judgements or estimates in the financial statements these appear reasonable • PPE valuations and pension liability valuations have been considered under 'Significant audit risks'. • Inverse floating LOBO loans are considered separately on page 8 and the need for further disclosures impacts our overall assessment in this section. We have requested that additional disclosures are made in Note 2 - Critical judgements in applying accounting policies.	GREEN
Other critical policies	• We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The accounting policies are appropriate and consistent with previous years.	Our review of accounting policies for the Council has not highlighted any issues which we wish to bring to your attention.	GREEN

Assessment
- ● Marginal accounting policy which could potentially be open to challenge by regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

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 other 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 in 2017/18. We have not identified any incidences from our audit work. However, we are aware of the High Court judgement in June 2018 in respect of the £104 million contract for community healthcare services. The moderation element in the procurement process was deemed to be flawed and the Council was not able to award the contract. However we understand that this has now been resolved and the contract is being re-evaluated.
4	**Written representations**	• A standard letter of representation has been requested from the Council.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to your bank, those you had placed investments with and those organisations which have provided you with loans. This permission was granted and the requests were sent. Responses were returned with positive confirmation, however a number of requests were not received. We are currently contacting those who have not replied.
6	**Disclosures**	• Our review identified the Council needed to provide additional detail and explanation to its original draft statements as regards its prior period adjustment. The Council had re-stated the 2016/17 comparators in its Comprehensive Income and Expenditure Statement to reflect the new structure introduced in 2017/18.
7	**Significant difficulties**	• We did not identify any issues with accounts closedown or production of the draft accounts or the quality of the working papers. This year has been a challenging year for auditors and audited bodies as it is the first in which all local government audits have needed to be completed by 31 July 2018. Following the completion of the audit we have committed to meet with the finance team to undertake a lessons learned exercise to inform next years audit process.

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

	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 Statement of Accounts, 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. No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to appendix E.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • 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 • If we have applied any of our statutory powers or duties A number of changes were made to the Narrative Report and AGS following our review these have been incorporated in the final version. 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. As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Note that work is substantially complete and we plan to that it will be completed in line with the statutory deadline of 31 August 2018.
4	**Certification of the closure of the audit**	We do not expect to be able to certify the completion of the 2017/18 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 Authority 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

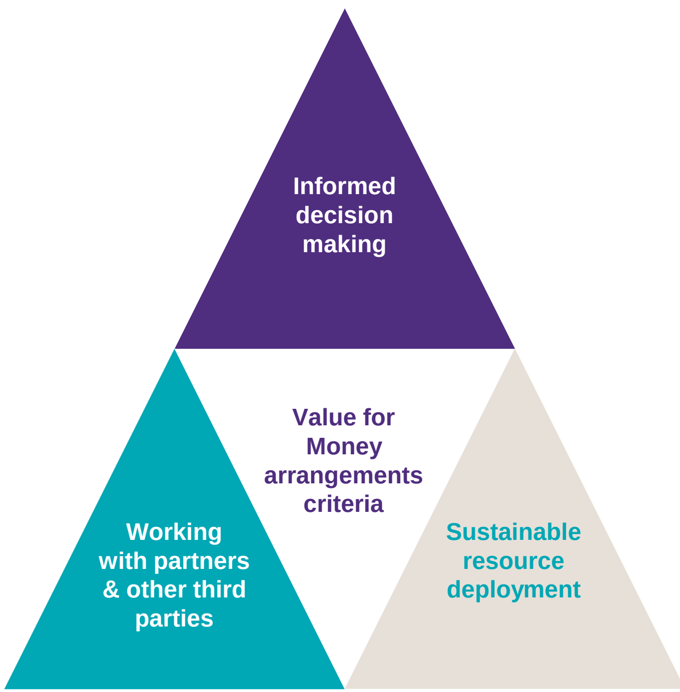
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance 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 April 2018 and identified a number of 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 17 April 2018.

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.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Financial sustainability arising from the challenging on-going savings programme facing the Council during the period of its medium term financial plan;
- The updates from Ofsted on its inspection of children's services. We note that the re-inspection has now been completed and reported publically on 17 August 2018.
- Internal control following the Head of Internal Audit's limited assurance opinions in 2016-17 and 2017-18.

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 19-21.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- except for the limited assurance opinion given by the Head of Internal Audit , the Council had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The text of our proposed report can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and whilst we have not agreed any specific recommendations for improvement we will continue to monitor the situation with regard to each of the significant risks as part of our 2018-19 audit.

Our VFM conclusion covers the 2017-18 financial year up to 31 March 2018.

The Council had its Ofsted re-inspection in early June and this covered practices within Children's Services relating to children in need of help and protection, children looked after and care leavers during 2017-18 and up to the end of May 2018. The re-inspection judgement delivered a more positive outcome compared to the previous judgement in 2015. We also understand that the Council is expecting to make further progress as regards the scope of the internal review programme as set out in the 2018-19 internal audit plan.

In addition the Council developed and agreed a revised Operational Plan in March 2018. This plan is key to underpinning the future direction of the Council and in particular is providing focus for a number of key changes that will impact its future financial and operational sustainability. The Council has put in place a range of measures to develop savings plans to meet the significant financial challenges it faces up to 2020/21. We will continue to closely monitor the development and delivery of these plans in the context of the Council's future financial sustainability.

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

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	**Financial sustainability** The Council is already committed to the delivery of a significant savings programme of £135 million between 2017/18 and 2021/22. The 2017/18 budget required £57.1 million funding from reserves to set a balanced budget. The 2018/19 budget included planned savings of £55 million but still required a further £42.0 million from reserves to balance the budget. The Council's MTFS 2018/19 to 2021/22, updated in February 2018, showed a cumulative funding gap between 2019/20 and 2021/22 of £330.6 million. The need to deliver the agreed saving and close the significant funding gap in the MTFS, represents a significant challenge for the Council.	In forming our conclusion we have reviewed - the Council's medium term financial strategy, - Analysed the detailed budget reports for 2018-19; - Reviewed the councils historical performance as regards delivering savings; - Analysed the current and predicted reserves position in the light of the challenges facing the Council; - Considered the wider financial environment impacting the Council's financial position; - Reviewed the processes and arrangements put in place for the development, agreement, management, monitoring and delivery of the savings programme; - Considered the governance arrangements supporting the delivery of the operational plan. In addition we have subjected the Council's position to a consistency review process within Grant Thornton to assess the comparability with other similar councils. We have concluded that during 2017-18 the Council continued to develop a range of responses to its medium term financial challenges despite significant change of senior personnel. In recent years and for 2018-19 this has included the planned use of significant amounts of reserves to offset any shortfall in the delivery of savings plans. This is not sustainable and the Council recognises this even though it currently has identified that it has sufficient reserves to meet its obligations up until 2019/20 and part of 2020/21. The Council has put in place changes from early 2018 with the introduction of a new interim Chief Executive / Director of Resources; new members of the senior management team and a revised operational plan. These changes are crucial to delivering medium term financial and operational sustainability. Whilst changes are in train, it remains too early to judge their success as detailed savings options have yet to be put before members. The plans being developed and the pace with which they are actioned will be crucial to the future success of the organisation.	**Auditor view** The Council's financial position remains challenging and continuing reliance on reserves is seen as unsustainable. There is a pressing need for a more transformational and rigorous savings programme to be delivered during 2018-19 and beyond. There will be some difficult decisions to be made during 2018-19 to ensure this happens. We will monitor the outcomes from the savings programme and its delivery on an on-going basis in 2018 and will report our findings on an ad-hoc basis in line with our statutory responsibilities as required. We will consider use of statutory recommendations during the year if we think these are appropriate.

Key findings (continued)

	Significant risk	Findings	Conclusion
2	**Ofsted inspection of childrens services** Ofsted issued a report on the Council's children's services in November 2015 which rated these as 'inadequate'. The Council has been subject to regular follow up reviews during 2017/18. A re-inspection was undertaken in May and June 2018. The result from this re-inspection was received on 17 August 2018. A further inspection of the Council's Special Educational Needs (SEND) services was undertaken in 2017 and reported in early 2018. This highlighted some significant weakness and improvement issues for the Council to consider.	Ofsted recently returned to undertake their re-inspection. We have monitored this situation during the year. The Council received its re-inspection report on 17 August 2018 from Ofsted which has improved its judgement from 'inadequate' to 'requiring improvement'. As a result of this improved position we have reviewed our judgement regarding the except for opinion and have removed this from our value for money conclusion.	**Auditor view** Our VFM conclusion has been altered to remove the 'except for' conclusion as a result of the revised improved judgement contained in the Ofsted report issued on 17 August 2018.

Key findings (continued)

	Significant risk	Findings	Conclusion
3	**Internal control** The Council's Head of Internal Audit (HIA) opinion for 2016/17 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. The Internal Audit plan for 2017/18 was approved by the Audit and Governance Committee in June 2017 but highlighted there may be areas where management would not be able to provide assurance that risks are being adequately and effectively controlled and this would inform the HIA opinion for 2017/18.	We have reviewed the work of internal audit during 2017-18 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. In 2017-18 The Head of Internal Audit reported in her annual report to the Audit and Governance Committee in April 2018. This concluded ; ' I can provide limited assurance overall regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control'.' She goes on to say that there were a number of areas of the Council's business where management had identified the need to continue to make service and control improvements and these were therefore excluded from the scope of audit work for the year as they would not have added value Some of these are significant and have therefore also affected the assurance I am able to provide overall but the plans being implemented by managers across the organisation are building the foundations for better control. It is still too early to see the positive impact of this improvement work but evidence is expected in future years.'	**Auditor view** On the basis of the limited assurance given by the Head of Internal Audit and the continuing limitations as to audit activity during 2017-18 we have continued with our ' except for' opinion in this area.

Other statutory powers and duties

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

Issue	Commentary
Public Interest report	We have not identified any other matters which would require us to issue a public interest report during 2017/18.
Written recommendations	We have not made any written recommendations under the Local Government Audit and Accountability Act 2014.
Application to the court for unlawful item	We have not had recourse to apply to the court regarding any unlawful items.
Advisory notice	We have not issued an advisory notice.
Application for judicial review	We have not had recourse to apply to the Court for judicial review.
	We have not identified any other matters which would be require to be consider under our other statutory powers or duties.

Independence and ethics

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.

Service	Fees £	Threats	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 £112,995 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 mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO Insights	9,000	Self-Interest (because this is a recurring fee)	The fee is a annual subscription for each of the next three years. The level of this recurring fee on its own is not considered a significant threat to independence as the fee for this work is £9,000 per annum in comparison to the total fee for the audit of £112,995 and in particular relative to Grant Thornton UK LLP's turnover overall. Ii is also a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been agreed with management. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

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 recommendation with management and we will report on progress on this recommendation during the course of the 2018/19 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
1	AMBER	The Council assets are revalued as at 1 April. However, the actual revaluations are undertaken throughout the year, to spread the workload. The revaluations are entered onto the asset register when they were received. The revalued assets are depreciated from the date they are entered onto the asset register rather than from the date of the valuation which is 1 April. In producing the accounts the Council is relying on the valuer as an expert to give them a valuation at a specified date and that is the date that has to be used. As the valuation certificates says the 1st April the revalued assets have to be depreciated from this date. Under the current arrangement the impact is that Property, Plant and Equipment (PPE) will be overstated with a corresponding understatement of depreciation in the year. The risk is that if a lot of higher value asset are revalued late in the year then this increases the potential error and increases the risk that the error could be of a significant value. It will also be an unadjusted error until the assets are revalued.	The Council should ensure that revalued assets are depreciated from the date certified by the Valuer. Having the valuer reflect the actual valuation date on the certificate, and if promptly put on the asset register, would mean that this would not be an issue. **Management response** Due to the Oracle fixed assets systems standard account period close-down processes it is not possible to back post valuations into the April period – to do so would be to leave accounting periods open throughout the year – which creates different control risks. The finance team will agree the valuation certificate dates with the Valuer. This action item was assessed as being neither material nor resulting in any issues regards fair presentation.

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 2016/17 financial statements, which resulted in one recommendations being reported in our 2016/17 Audit Findings report. The Council is in the process of implementing this recommendation.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	In 2016/17 our review of T controls identified 7 users who can modify system security settings and 68 users have access to modify ledger codes. This meant that there was a risk that users could override the existing internal controls. The Council agreed to remove access for the 7 users and to review the 68 users identified as having access to modify ledger codes to ensure that access rights are appropriate.	Work has commenced on updating these responsibilities to reduce the number of these in use.

We are currently finalising our work for 2017/18 on the Oracle E-business suite (EBS) system. No issues have been identified which would be likely to have a material impact on the accounts but we will make suggested improvements to user access controls and passwords.

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.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1	A revised Minimum Revenue Provision (MRP) policy was approved by the Council on the 19 July 2018. The changes required to the draft accounts could only be processed once the Council had approved the revised policy. Therefore, in respect of this issue the draft accounts produced on 24 May 2018 were correct at the time and this is simply an adjustment to reflect the revised policy. The impact of this has been an overall increase of £13.2 million in usable reserves with a corresponding reduction in unusable reserves. The changes all relate to the balance sheet and are:			
	Earmarked reserves		13,200	
	Capital Adjustment Account (CAA)		(13,200)	
	Adjustment have also been made to the Movement in Reserves Statement for the changes identified above.			
2	Expenditure on Disabled Facilities Grant (DFG) was included within the Comprehensive Income and Expenditure Statement (CIES). However, when the Finance Team were working on the 2016/17 CIES re-statement they identified that DFG expenditure in 2017/18 was incorrectly shown against the Chief Executive Services line. This has been amended as follows:			
	Chief Executive Services – Gross Expenditure	(12,600)		
	Adult Services – Expenditure	12,600		
	Overall impact	£0	£0	£0

Audit Adjustments (continued)

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?
Comprehensive Income and Expenditure Account (CIES)	During 2017/18 the Council undertook a re-structure and it disclosed the amounts for 2017/18 in the CIES, above the cost of service line, under the new structure headings. However, the Council did not re-state the 2016/17 comparators but simply disclosed these amounts under the old structure that was in place in 2016/17. However, the Code 3.4.2.31 says that if a local authority changes the presentation or classification of items in its financial statements then needs to reclassify comparative amounts. Therefore, the Council had had to re-state its 2016/17 CIES above the cost of services line and other associated disclosures. The Council has made reference to these changes in Note 4 as part of its overall prior period adjustment (PPA).	✓
Note 4 – Prior period adjustment (PPA)	After a review of its capital accounting arrangements during 2017/18 the Council identified a number of, what it considered, material errors in 2016/17 and some in earlier years. To comply with the Code the Council has had to make a prior period adjustment to correct these errors. Given the number of errors involved describing this in the 2017/18 accounts has been a challenge. The Council made a reasonable start but a prior period adjustment requires a lot of disclosures to ensure compliance with the Code an d so that the reader is clear about which individual lines have changed in the accounts, by how much and why. A number of changes were required to the note including: • providing commentary on all changes made prior to the 1 April 2016 opening balance sheet; • enhancing the narrative disclosures to fully explain the changes and their impact; • showing all the changes to each line in the primary statements using a column format with reference back to the individual errors; • re-stating the Movement in Reserves Statement (MiRS) and the Cashflow Statement; • disclosure of the impact on the Property, Plant and Equipment note of the significant changes to the value of Assets under construction (AUC); • ensuring the Narrative Report refers to the PPA and directs the reader to Note 4 for the detail.	✓
Note 18 – Property, Plant and Equipment	This section includes a note which shows when categories of assets have been revalued over a period of years. In the draft accounts this was reconciled back to the net book value of the assets but should have been reconciled back to gross value. This note has been amended.	✓
Presentation and consistency	A number of minor changes have been made to the wording and presentation of disclosure notes throughout the Financial Statements to improve their clarity and consistency.	✓

Audit Adjustments (continued)

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 changes	Detail	Adjusted?
Note 2 – Critical judgements in applying accounting policies - LOBOs	The accounting disclosures have been amended in respect of inverse floating Lender Option Borrower Option loans to : • Disclose that the council has made a critical judgement in respect of the treatment of inverse floating LOBOs • Explain the interrelationship between the inverse floating interest feature and the lenders prepayment option and how it impacts interest rate risk • Explain that the potential impact on the financial statements of following different valuation methods could potentially be material to the amounts recorded in the financial statements. The Council has made amendments to its 'critical judgements' policy and to the disclosures in relation to financial instruments.	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2017/18 audit which have not been made within the final set of financial statements. The Audit, Risk and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 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. The amounts involved are:				The effect of this item was assessed as being neither material nor resulting in any issues regards fair presentation. Due to the Oracle fixed assets system's standard account period close-down processes it is not possible to back post valuations into the April period – to do so would be to leave accounting periods open throughout the year – creating additional control risks. The finance team will agree the valuation certificate dates with the valuer in future.
	Property, Plant and Equipment		(3,976)		
	Depreciation in 2017/18	3,976			
2	Our detailed testing of revaluations in 2017/18 identified assets that were recorded in error by the valuer as being revalued in 2017/18. As a result, these assets were subsequently treated as revaluations in the asset register and the draft financial statements. The amounts involved are:				The effect of this item was assessed as being neither material nor having a significant influence on the users of the accounts. Additional validation checks have now been put in place to reduce the risk of this type of error occurring in future.
	Property, Plant and Equipment		(2,518)		
	Revaluation Reserve			2,614	
	Revaluations charged to CIES	197			
	Depreciation in 2017/18	(293)			
	Overall impact	**£3,880**	**£(6,494)**	**£2,614**	

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements in the 2016/17 financial statements.

Audit Adjustments (continued)

Disclosure changes	Detail	Adjusted?
Notes 5, 14, 15, 16, 29 and 37	Various sections of these notes have been updated to reflect the amendments made for disabled facilities grant expenditure and the revised MRP policy.	✓
Note 11 – Officers' remuneration	Our testing of 'Exit packages' identified one error. In the banding £100,001+ the number of other exit packages was reduced by 1 and the value reduced by £103,000.	✓
Note 13 – Fees payable to auditors	Fees incurred for other audit work undertaken by Grant Thornton was amended from £11,000 to £13,000 to reflect the actual costs charged.	✓
Note 26 – Financial instruments	In the table on 'Financial assets' local authority bonds were incorrectly classified in investments as 'Financial assets at fair value through profit and loss' but should have been shown as 'loans and receivables' held at amortised cost. Amount of £2 million was transferred between the two categories.	✓
Technical Annex – Financial instruments disclosure notes – Credit Risk	The 'Finch' ratings for some of the Council's investment portfolio were incorrect. These have been amended.	✓
Technical Annex – Post-employment benefit disclosure notes – Reconciliation of present value of the scheme liabilities	This note was updated to show the £78.7 million lump sum upfront payment of contributions to the Lancashire County Pension Fund in April 2017.	✓
Presentation and consistency	A number of minor changes have been made to the wording and presentation of disclosure notes throughout the Financial Statements to improve their clarity and consistency.	✓

Fees

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

Audit Fee

	Proposed fee	Final fee
Council Audit	£112,995	**To be confirmed**
Total audit fee (excluding VAT)	**£112,995**	**To be confirmed**

The proposed fee for the year was in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). However, the actual fee will be higher as we have had to undertake additional work this year in respect of your accounting for LOBOs and your changes to your minimum revenue provision (MRP) policy. These areas of work, and the issues considered, have been complex and the work has been undertaken by senior members of the audit team and our technical team. At the time of writing our Audit Finding Report the additional fee has not been calculated but when it has been it will be agreed with the Interim Chief Executive and Director of Resources (Section 151 officer) and then it will need to be approved by PSAA. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Non Audit Fees

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

Audit opinion

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lancashire County Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Comprehensive income and expenditure statement, the Movement in reserves statement, the Balance sheet, the Cash flow statement, the Group comprehensive income and expenditure statement, the Group movement in reserves statement, the Group balance sheet, the Group cash flow statement, and all notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

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 2018 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 2017/18; 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.

Who we are reporting to

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.

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 Interim Chief Executive and Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Interim Chief Executive and Director of Resources 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 Interim Chief Executive and Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 1 to 219, other than the group and Authority financial statements, our auditor's report thereon and our auditor's report on the Pension fund accounts. 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 course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources 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.

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 for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Responsibilities of the Authority, the Interim 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 18, 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 Interim Chief Executive and Director of Resources. The Interim 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 2017/18, which give a true and fair view, and for such internal control as the Interim 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 Interim 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 the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Audit, Risk and Governance Committee is Those Charged with Governance.

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.

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

Qualified 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, except for the effects of the matters described in the basis for qualified conclusion section of our report, we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for qualified conclusion

In considering the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources we identified the following matter:

The Authority's Head of Internal Audit gave limited assurance over the Authority's system of internal control in her opinion for the year ended 31 March 2018. This was because the internal plan put in place for the year and approved by the then Audit and Governance Committee in June 2017 did not provide for coverage by internal audit of the full system of internal control.

As in previous years, we have concluded that this matter is evidence of weaknesses in proper arrangements for managing risks effectively and maintaining a sound system of internal control and acting in the public interest, through demonstrating and applying the principles and values of sound governance.

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 2018.

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 are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2018. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018. We are satisfied that this work 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 2018.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2018 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of a matter brought to our attention by the Authority in 2013. We are satisfied that this 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 2018.

Signature to be added

Michael Thomas
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4th Floor
Royal Liver Building
Liverpool
L3 1PS
Date to be added

DRAFT

grantthornton.co.uk