External Audit Plan

Year ended 31 March 2020

Lancashire County Council

July 2020

Contents

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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Lancashire County Council (‘the Council’) for those charged with governance.

Respective responsibilities

The National Audit Office (‘the NAO’) has issued a document entitled Code of Audit Practice (‘the Code’). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of [insert name of organisation. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Council and group’s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit, Risk and Governance Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit, Risk and Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Group Accounts	The Council is required to prepare group financial statements that consolidate the financial information of Lancashire County Developments Limited.
Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • revenue recognition (default significant risk under ISAs) – this has been rebutted for the Council • management override of controls (default significant risk under ISAs) • valuation of land, buildings and investment property • valuation of the pension fund net liability • valuation and accounting for the £350 million UK MBA bond, and • Covid-19. We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £27.124 million (PY £32.248 million) for the group and £27.12 million (PY £32.208 million) for the Council, which equates to 1.25% (PY 1.5%) of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. Clearly trivial has been set at £1.356 million for the group (PY £1.614 million) and £1.356 million for the Council (PY £1.61 million).
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risk: • Financial sustainability. The 2019/2020 budget included £10 million from reserves In order to balance the budget. The Council’s Medium Term Financial Strategy (MTFS) 2020/21 to 2023/24 updated in February 2020, showed a cumulative funding gap by 2023/24 of £33.3 million. The funding gap assumes that significant savings identified of £120 million be delivered over the period of the Medium Term Financial Strategy (MTFS). The Council underspent its 19/20 budget by £1.7m
Audit logistics	Our interim visit took place in January and February 2020 and our final visit will commence in August 2020. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audit will be £111,856 (PY: £96,006) for the Council, subject to the Council meeting our requirements set out on page 15.
Independence	We have complied with 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.

2. Key matters impacting our audit

Factors

Financial Resilience

Local Government funding continues to be stretched with increasing cost pressures and demand from residents.

Significant savings plans have been in place at the Council, and the reliance upon reserves to balance the budget has decreased since 2018/19. The Council's 2019/20 budget required £10 million from reserves with a £1.7m underspend at year end.. The 2020/21 budget assumes a nil call on reserves.

The Council's Medium Term Financial Strategy (MTFS) 2020/21 to 2023/24 updated in February 2020, shows a cumulative funding gap between 2021/22 and 2023/24 of £33 million. The funding gap assumes that significant savings identified of £120 million are delivered over the period of the MTFS and pre-dates the impact of Covid 19.

Covid-19 pandemic

The unprecedented global response to the Covid-19 pandemic cannot be underestimated and the implications remains highly uncertain. Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020. To date the Council has received £33m in emergency Covid 19 support from Government. Although further support has been announced recently its impact is unclear.

Brexit

In January 2020 the UK government and the EU ratified the Withdrawal Agreement and the UK's membership of the EU formally ceased on 31 January. The existence of a 'transition period' to 31 December 2020 means that there will be little practical change for the Council until at least 2021. However, the nature of the future relationship between the UK and the EU is still to be determined and considerable uncertainty persists. The Council will need to ensure that it is prepared for all outcomes, including those with any impact on contracts, on service delivery and on its support for local people and businesses.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny

Our response

Financial Resilience

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the group and will review related disclosures in the financial statements.
- We will review management's post balance sheet assessment updated to the date of the audit opinion.

Covid-19 pandemic

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the group and will review related disclosures in the financial statements.

Brexit

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.

Financial reporting and audit – raising the bar

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audit Plan, has been discussed with the Director of Finance and is subject to PSAA agreement.
- Our audit fee for 2018/19 has been determined by PSAA and our proposed fee for 2019/20 will also need to be determined by PSAA.

3. Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Lancashire County Council	Yes	Audit of the financial information of the component using component materiality	• See pages 6 to 10	Full scope UK statutory audit performed by Grant Thornton UK LLP
Lancashire County Developments Limited	No	Specified audit procedures relating to significant risks of material misstatements of the group financial statements.	• See pages 6 to 10	Specific scope procedures on investment property to be performed by the component auditor Beever & Struthers. We also receive as part of the instructions to the component auditor any other key issues from the audit, and we will consider the information received as part of our overall response to the Covid-19 financial statements level risk.

Key changes within the group:

- We are not aware of any key changes within the group during 2019/20.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

4. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Revenue recognition	**Council**	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Lancashire County Council.	The risk is rebutted.
Management over-ride of controls	**Group**	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. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	**Council**	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. 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. 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 and key audit matter.	We will: • update 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 • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • consider the impact of Covid-19 and Brexit on investment valuations • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability • test 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 • considering whether there is a further impact of the McCloud judgement on the actuarial liabilities of the Council • undertake 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; and • obtain assurances 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.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land, buildings and investment property	**Group**	The Council revalues its land and buildings on a rolling three-yearly basis. Investment properties are revalued annually. 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. Additionally for land and buildings, management will need 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. 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 and key audit matter.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write out to them and discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engage our own valuer to assess the instructions to the Council’s valuer, the Council’s valuer report and the assumptions that underpin the valuation • test revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluate 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 • consider the impact of Covid-19 and Brexit on asset valuations.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation and accounting for the £350 million UK MBA bond loan	**Council**	The Council in March 2020 was the first Council in the UK to secure loan financing through the UK Municipal Bonds Agency (UKMBA). This was an alternative to the current methods of borrowing, for example from the Public Works Loan Board (PWLB) and other local authorities. The Council has provided a sole Council guarantee for the £350 million issue of bonds over the 5 year term. UKMBA are the issuer of the Bond and it is listed on the London Stock Exchange. Management need to consider the terms of the agreement of these loans and make judgements as to the appropriate accounting and disclosure treatment. We therefore identified the valuation and accounting for the UK MBA loans as an other risk and key audit matter.	We will: • assess management's processes and assumptions for identifying critical judgements • discuss with management the basis on which the valuation and accounting was carried out, including advice received from treasury management advisers and legal advisors • consider the governance framework in relation to the Bond financing • review the accounting and narrative disclosures within the financial statements in relation to the loan including the Narrative Report.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Covid-19 pandemic	**Group**	The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic • evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment, and • discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.

5. Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Council
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
    - Issue of a report in the public interest or written recommendations to the Council under section 24 of the Act, copied to the Secretary of State
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
    - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

As noted in our Audit Plan, Audit Findings Report and Annual Audit Letter in 2018/19, we have been unable to certify completion of the Lancashire County Council audit since 2012/13 due to an on-going police investigation. We will continue to track any developments during the course of our audit, and provide any further update in our Audit Findings Report.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

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 group's ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

6. Materiality

The concept of 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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

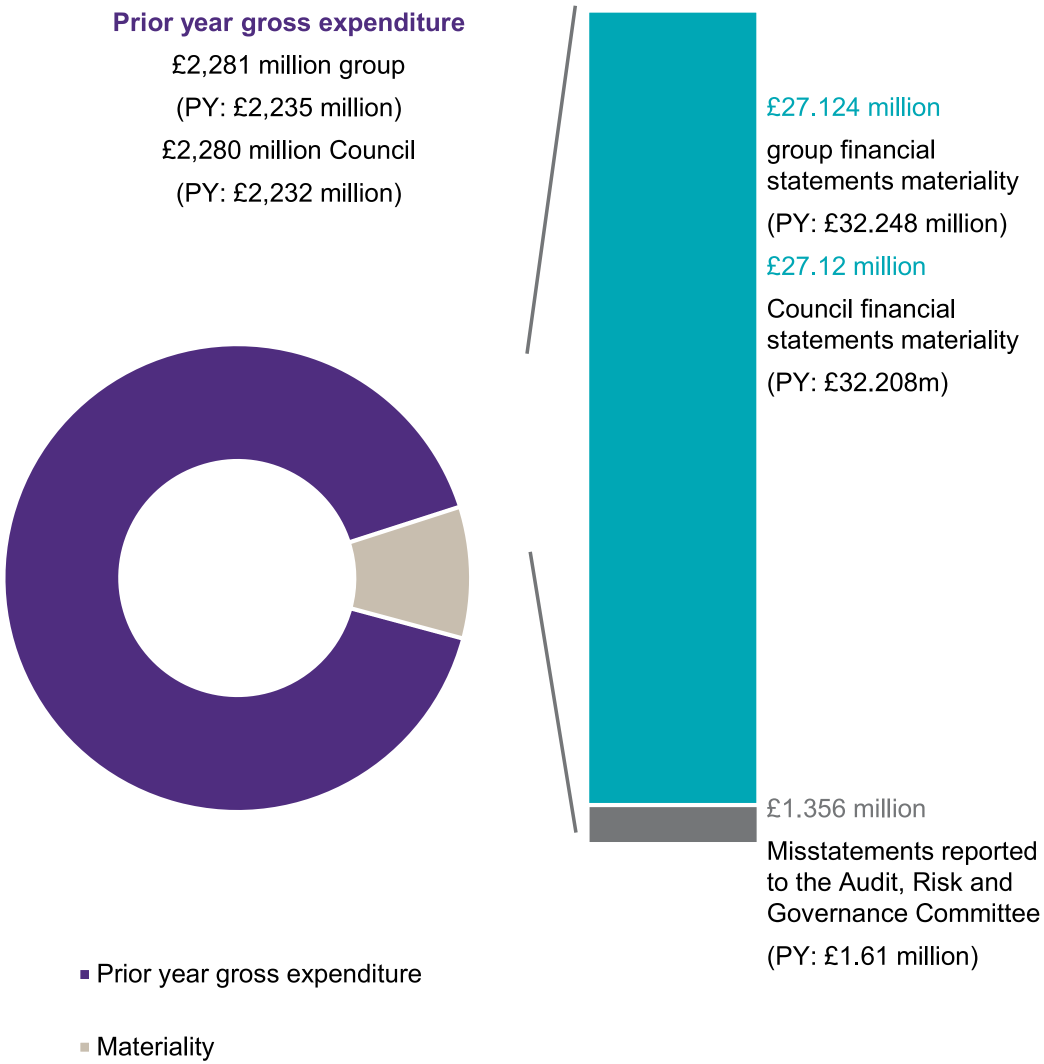
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £27.124 million (PY £32.248 million) for the group and £27.12 million (PY £32.208 million) for the Council, which equates to 1.25% (PY 1.5%) of your prior year gross expenditure for the year. The reduction in materiality compared to the previous year reflects the higher profile of local audit following external reviews such as those led by Sir John Kingman and Sir Tony Redman. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £0.015 million for senior officers remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit, Risk and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Risk and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.356 million (PY £1.61 million).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Risk and Governance Committee to assist it in fulfilling its governance responsibilities.



7. Value for Money arrangements

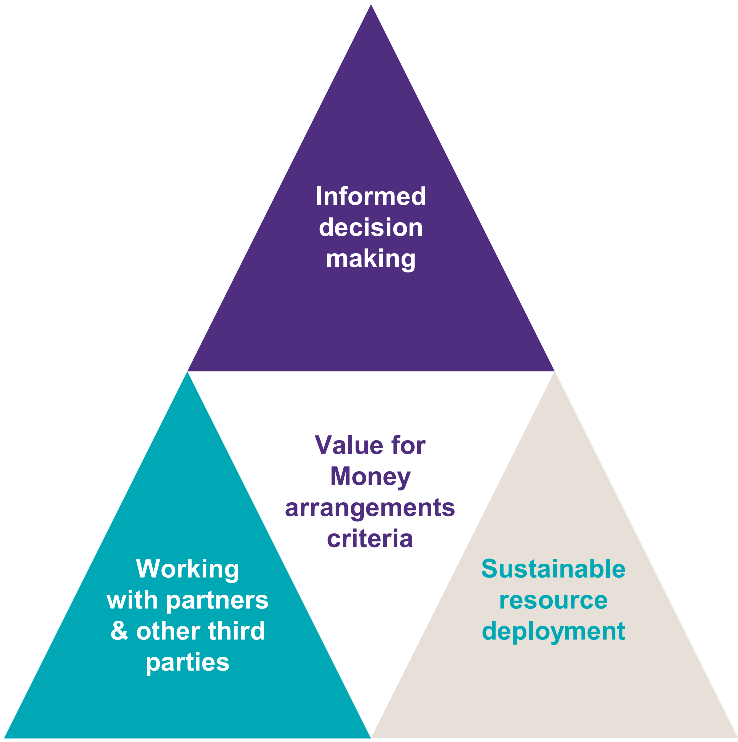
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work 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 to secure value for money.

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:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.

Financial Sustainability

The Council's Medium Term Financial Strategy (MTFS) 2020/21 to 2023/24 updated in February 2020, shows a cumulative funding gap between 2021/22 and 2023/24 of £33 million. The funding gap assumes that significant savings identified of £120 million are delivered over the period of the MTFS.

Significant savings plans have been in place at the Council, and the reliance upon reserves to balance the budget has decreased since 2018/19. The Council's 2019/20 budget required £10 million from reserves. The 2020/21 budget assumes a nil call on reserves. The 19/20 financial year ended with an underspend of £1.7m.

The need to deliver the agreed savings and close the funding gap in the MTFS, represents a significant challenge for the Council.

The implications of the Covid-19 pandemic on the Council in terms of the financial impact and the savings are currently being reviewed. We will particularly focus on the impact of Covid-19 on the 2020/21 budget and beyond.. To date the Council has received £56m in emergency support from Government . A further funding package was announced in July 2020 but the precise details of how it impacts on the Council will need to be worked through.

We will review the Council's arrangements for updating, agreeing and monitoring its financial plans including the assumptions within them. This will include the consideration of Brexit in the Council's planning processes. We will also consider the arrangements in place to monitor the identification, pace, delivery and reporting of savings. This work is part of the sustainable resource deployment sub-criteria.

8. Audit logistics & team

Paul Dossett, Key Audit Partner

Paul leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Trust.

Simon Hardman, Audit Manager

Simon plans, manages and leads the delivery of the audit, is your key point of contact for your Finance team and is your the first point of contact for discussing any issues

Hebe Dyson, Audit Incharge

Hebe's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively, efficiently and supervises and co-ordinates the on-site audit team.

Audit timelines

Due to Covid-19, in 2019/20 there are extended deadlines for the preparation of the financial statements up to 31 August 2020, with the date for audited financials statements as 30 November 2020. We are continuing to liaise with officers to plan the audit timings, and the expected reporting date to the Audit, Risk and Governance Committee.

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

9. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been discussed with the Director of Finance and is subject to PSAA agreement. Note that the 2018/19 audit fee has been determined by PSAA and is set out below,.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Council Audit	£112,995	£96,006	£115,856
Total audit fees (excluding VAT)	**£112,995**	**£96,006**	**£111,856**

Assumptions:
In setting the above fees, we have assumed that the Council will:
- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:
In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Covid-19:

Our audit response to Covid-19 is emerging. We will update any further impact upon expected audit fees at a later stage in the audit.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale (contracted in the case of non PSAA) fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale/ original contract fee	**87,006**	
Raising the bar	5,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Materiality	2,500	As outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	3,500	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	9,350	We have therefore engaged our own audit expert – Wilks, Head & Eve and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. Note that the increase includes an estimate for the fee payable to the auditor's expert. We estimate that the cost of the auditors expert will be in the region of £5,000.
Covid-19	2,500	We have added a new significant risk for Covid-19 and are required to do additional work as a result.
New £350 million bond with UKMBA	2,000	Note that PSAA's original scale fee for this contract was set in March 2018, since that time the Council has entered a bond in March 2020 with UK MBA and additional work will be required for the valuation and disclosure requirements in the financial statements.
Revised scale fee (to be approved by PSAA)	**111,856**	

10. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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.

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 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following other services were identified.

Service	£	Threats	Safeguards
Audit related:			
Agreed upon procedures – Teachers' Pension return	£ TBC	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 low in comparison to the total fee for the audit of £111,856 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:			
Chief Finance Officer (CFO) Insights	£9,000	Self-Interest (because this is a recurring fee)	The fee is a annual subscription for three years from 1 April 2017 to 31 March 2020. This is year three of the subscription. 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 scale fee for the audit of £111,856 and in particular relative to Grant Thornton UK LLP's turnover overall. It 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 notified to the Audit, Risk and Governance Committee. 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.

The firm is committed to improving our audit quality – please see our transparency report - https://www.grantthornton.ie/about/transparency-report/

Independence & non-audit services

Auditor independence

On page 17 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 Authorised Contractual Scheme and investment funds structures audit	TBC	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.

Appendices

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the Audit, Risk and Governance Committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

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