The Audit Findings for Preston City Council

Year ended 31 March 2021

Preston City Council

28 October 2022

Contents

Your key Grant Thornton team members are:

John Farrar
Key Audit Partner
T 0151 224 0869
E john.farrar@uk.gt.com

Isaac Awomokun
Assistant Manager
T 0161 234 6388
E isaac.awomokun@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

John Farrar

Name : John Farrar
For Grant Thornton UK LLP
Date : October 2022

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Preston City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), 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 remotely between August 2021 and October 2022. Our findings are summarised on pages 5 to 19. Adjustments have been made to the financial statements following audit, resulting in amendments to the Comprehensive Income and Expenditure Statement, Balance Sheet, Movement in Reserves Statement, Cash Flow Statement and related notes. The most significant amendment reduces the Council's reported net asset position by £2.7m, although there is no impact on the Council's usable reserves position. Adjustments to the Council's draft accounts presented for audit 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.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion in Appendix E or material changes to the financial statements, subject to the following outstanding matters;

- clearance of final audit quality review processes; and
- receipt of management representation letter.

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

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have completed our VFM work and we presented our draft 2020/21 Auditor's Annual Report (AAR) to the Council's Audit Committee meeting on 27 April 2022. We will finalise our AAR following completion of our financial statements audit work, in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified any significant weakness in the Council's arrangements.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit alongside the issue of our auditor's report on the Council's financial statements.

Significant Matters

We have encountered delays in concluding the Council's 2020/21 external audit.

Some difficulty was experienced in obtaining breakdowns of year end debtors and creditors balances which caused us delays in selecting samples for audit testing. There have also been delays in the response to our enquiries of management during our risk assessment processes. Further delays have been encountered in receiving evidence to support data inputs (such as floor areas) used in the valuation of property, plant and equipment and in receiving responses to audit queries relating to the Council's infrastructure assets. We acknowledge that the Council has experienced difficulties due to capacity being diverted to deal with COVID-19 grants application processing. Additionally, both the Council and ourselves have had to contend with the continuing pressure of remote working.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you at the Audit Committee on 14 July 2021.

Conclusion

We have substantially completed our audit of your financial statements and subject to receipt of management's letter of representation and completion of our final audit quality processes, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 1 November 2022, as detailed in Appendix E.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted on page 4 of our audit plan presented to the Audit Committee on 14 July 2021, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remote accessing financial systems, video calling, and verifying the completeness and accuracy of information provided remotely produced by the Council.

2. Financial Statements

Our approach to materiality

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

We have revised the performance materiality due to the actual gross expenditure changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table below our determination of materiality for Preston City Council

	Amount per audit plan (£)	**Revised amount (£)**	**Qualitative factors considered**
Materiality for the financial statements	1,550,000	1,750,000	This equates to around 2% of your draft account gross operating expenditure for the year and is considered to be the level above which users of the accounts would wish to be aware in the context of overall expenditure.
Performance materiality	1,085,000	1,225,000	Assessed to be 70% of financial statement materiality, to reflect the recent track record for producing financial statements requiring some adjustments.
Trivial matters	77,500	87,500	This equates to 5% of materiality.
Materiality for senior officer remuneration disclosures	50,000	50,000	This is a sensitive disclosure for some users of the accounts, so we have used a lower level of precision

2. Financial Statements - Significant risks

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

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
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. 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 have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any evidence of management override of controls. However, we have identified a weakness in authorisation controls and the ability of senior officers to post journals. See Appendices A and B for details of the control deficiencies and our recommendations related to them.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions: **Income from fees, charges and other service income** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. For Preston City Council, we have concluded that the greatest risk of material misstatement relates to fees, charges and other service income. This income is regarded as a material risk as it is comprised of numerous individual transactions from various sources that amount to a material amount. We have therefore identified the occurrence and accuracy of fees, charges and other service income as a significant risk, which was one of the most significant assessed risks of material misstatement. We have rebutted this presumed risk for the other revenue streams of the Council because: • Other income streams are primarily derived from grants or formula based income from central government and tax payers; and/or • opportunities to manipulate revenue recognition are very limited.	There are no changes to our assessment reported in our audit plan. We have: • evaluated the Council's accounting policy for recognition of income from fees, charges and other service income for appropriateness; • gained an understanding of the Council's system for accounting for income from fees, charges and other service income and evaluated the design of the associated controls; • agreed, on a sample basis amounts recognised as income from fees, charges and other service income for occurrence and accuracy in the financial statements to supporting documentary evidence. Our audit work has not identified any issues in respect of the risk relating to fraudulent transactions included with income from fees, charges and other service income.
Improper expenditure recognition Practice Note 10, issued by the FRC, states auditors should also consider that material misstatements may occur by the manipulation of expenditure recognition. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition or the manipulation of expenditure recognition. Having considered the risk factors set out in ISA240 and PN10 and the nature of the revenue and expenditure streams at the Council, we have determined that the risk of fraud arising from revenue recognition and expenditure manipulation can be rebutted, because: • there is little incentive to manipulate revenue or expenditure recognition • opportunities to manipulate revenue recognition and expenditure are very limited • classes of expenditure that could be prone to manipulation, such as management expenses and payments to and on account of leavers are not material • the culture and ethical frameworks of local authorities, including Preston City Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider these to be significant risks for Preston City Council.	We have rebutted this risk. There are no changes to our assessment reported in our audit plan. There are no issues to bring to your attention.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of other land and buildings, surplus assets and investment properties The Council revalues its land and buildings, surplus assets on a rolling five-yearly basis and investment properties on an annual basis. These valuations represent a significant accounting 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, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value for land and buildings and the fair value for surplus assets not held for sale and investment properties at the financial statements date, where a rolling programme is used. We have therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, • reviewed the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been 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 at year end. Our audit work has not identified any issues in respect of the risk relating to in respect of valuation of other land and buildings, surplus assets and investment properties. However, in other work on property, plant and equipment, not directly linked to the work on the valuation significant risk, we have identified material current and prior period adjustments affecting the gross values of the cost / valuation of assets and accumulated depreciation. See Appendix C for details of the current and prior year adjustments resulting from this finding.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the pension fund net liability 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. 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.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained 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. Our audit work has not identified any issues in respect of the risk relating to in respect of the valuation of the pension fund liability.

2. Financial Statements – risk arising during the audit

Financial reporting of infrastructure assets	Commentary
In February 2022, concerns we raised in relation to the local government sector's compliance with the CIPFA Code's accounting requirements for infrastructure assets. The Code defines infrastructure assets as 'inalienable assets, expenditure on which is only recoverable by continued use of the asset created, i.e. there is no prospect of sale or alternative use'. The Code gives examples of infrastructure assets and these include highways, footpaths, bridges and other structures. The Code requires that infrastructure assets are reported at depreciated historic cost, rather than at a valuation. Audit findings across the local government sector indicated risks of overstatement of gross book values and accumulated depreciation for infrastructure assets, due to failure to derecognise assets from Balance Sheets on replacement, risks of inappropriate asset lives being applied in calculation depreciation and risks arising from incomplete accounting records related to the age of some underlying assets. The Council's draft 2020/21 financial statements included infrastructure assets with a gross book value of £10.7m (net book value £6.5m) and we therefore determined it appropriate to undertake audit procedures to address the risk of material misstatement in this area.	We have: • discussed emerging sector-wide audit findings on infrastructure accounting with the Council's finance officers and kept officers updated on CIPFA LASAAC proposals on possible amendment to the Code of Practice on Local Authority Accounting; • evaluated management responses to audit enquiries and challenged management's approach to reviewing the infrastructure balances reported in the draft financial statements; • reviewed asset register extracts relating to infrastructure assets; • reviewed a Prior Period Adjustment (PPA) identified by management. This PPA is necessary to remove infrastructure assets which transferred to Lancashire County Council in 2006/07 from the Preston City Council's Balance Sheet. The PPA reduces the Council's reported net asset position by £2.7m, with a consequential reduction in unusable reserves. The revised financial statements include a third Balance Sheet as at 1 April 2019 and a new disclosure Note 37 to comply with CIPFA Code reporting requirements; • identified a potential £0.2m unadjusted misstatement of the Council's Property Plant and Equipment net book value, relating to infrastructure assets which may require writing off the Council's Balance Sheet. We recommend management investigates the underlying assets further, with a view to processing any further adjustments required within the 2021/22 financial statements; • recommended that management keeps the useful economic lives of infrastructure assets, used in calculating depreciation charges, under review; Our audit work has provided assurance that the Council's adjusted infrastructure balances are free from material misstatement.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Other Land and Buildings: £48.956m Surplus Assets: £1.956m Investment Properties: £40.615m	Other land and buildings comprises £48.460m of non-specialised assets such as council offices, markets, parks and public conveniences, which are required to be valued at existing use in value (EUV) at year end. The remainder of other land and buildings (£0.496m) is the Guild Hall which was valued in 2019/20 on a market value basis with special assumptions relating to the occupancy status due to ongoing legal dispute. The Council has engaged the council's internal valuers to complete the valuation of non-specialised properties as at 1 April 2020 on a five yearly cyclical basis. 54% of other land and building assets by value were revalued during 2020/21. Surplus assets comprises £1.956m of land and retail properties that are required to be valued at fair value. The Council has engaged the council's internal valuers to complete the valuation of surplus assets. 47% of surplus assets by value were revalued during 2019/20. Investment properties comprises £40.615m of assets held by the council solely to earn rentals and / or for capital appreciation. They are all required to be revalued annually. The Council has engaged the council's internal valuers to complete the valuation of non-specialised properties as at 1 April 2020. 100% of investment properties were revalued in 2020/21.	We have reviewed the estimate, considering: • An assessment of the internal and external valuers used as management's expert to be competent, capable and objective; • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate; • Whether the valuation method remains consistent with the prior year; • We have confirmed the consistency of the estimate against the Gerald Eve report, and reasonableness of the change in the estimate; • We have agreed the General Fund valuation report to the Fixed Asset Register and to the Statement of Accounts; • The consistency of your estimate against available indices; • The reasonableness of the overall change in estimate; • We have challenged the sensitivities used by the valuer to assess completeness and consistency with our understanding; and • The adequacy of disclosure of estimate in the financial statements; and • The additional requirements of ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures.*	Light Purple

Assessment

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

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Property valuations continued	Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 April 2020, by reviewing all assets with a value greater than £0.5m, including those not formally revalued at 1 April 2020, to determine whether there has been a material change in the total value of these properties. The valuation of other land and buildings properties valued by the valuer has resulted in a net increase of £2.093m. The total year end valuation of other land and buildings including this and other movements was £48.956m, a net increase of £2.304m from 2019/20 (£46.652m). The valuation of surplus assets valued by the valuer has resulted in no change on the previous year. The total year end valuation of surplus assets including this and other movements was £1.956m, a net increase of £0.001m from 2019/20 (£1.957m). The valuation of investment properties valued by the valuer has resulted in a net increase of £0.011m. The total year end valuation of investment properties, including this and other movements was £40,615, a net increase of £0.059m from 2019/20 (£40.556m).	See comments on previous page	Light Purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £97.654m	The Council's net pension liability at 31 March 2021 is £97.654m (PY £78.064m) comprising the Lancashire County Pension Fund Local Government Pension scheme. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £19.59m net actuarial loss during 2020/21 (£15.74m gain in 2019/20).	We reviewed the detail of your assessment of the estimate, considering : • An assessment of management's expert • An assessment of actuary's roll forward approach taken, detail work undertaken to confirm reasonableness of approach • The use of PwC as auditors expert to assess actuary and assumptions made by actuary (see assumptions table below) • The completeness and accuracy of the underlying information used to determine the estimate • The impact of any changes to valuation method • An assessment of the information received from pension fund auditor • The reasonableness of the Council's share of LPS pension assets. • The reasonableness of decrease in estimate • The Adequacy of disclosure of estimate in the financial statements	Light purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.1%	2.1-2.2%	●
Pension increase rate	2.8%	2.8%	●
Salary growth	4.2%	3.95-4.20%	●
Life expectancy – Males currently aged 45 / 65	23.9 years / 22.4 years	22.5-24.7 / 20.9-23.2	●
Life expectancy – Females currently aged 45 / 65	26.9 years / 25.1 years	25.9-27.7 / 24.0-25.8	●

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for NNDR appeals - £4.094m	The Council are responsible for repaying a proportion of successful rateable value appeals. The Council's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates, which are then adjusted for local issues. Due to a reduction in outstanding appeals, the provision has decreased by £2.091m in 2020/21.	We reviewed the detail of your assessment of the estimate, considering: • Appropriateness of the underlying information used to determine the estimate; • Consistency of estimate against peers/industry practice; • Reasonableness of decrease in estimate; and • Adequacy of disclosure of estimate in the financial statements. We have not identified any material issues in respect of the NNDR appeals provision.	Light Purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants income recognition and presentation	The Council receive a number of grants and contributions and must determine whether the Council is acting as principal or agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council is acting as the principal and credited grants to the Comprehensive Income and Expenditure Statement including: • COVID-19 funding • New Homes Bonus • Benefits related grants • Business rates reliefs • Developer contributions • Community Infrastructure Levy • Disabled Facilities Grant The Council is acting as an agent and does not recognise the grant income in respect of approximately £34m of COVID-19 funding to support local businesses. The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the giver.	Our audit work included consideration of: • whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all • completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income • impact for grants received, whether the grant is specific or non-specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. • adequacy of disclosure of judgement in the financial statements Our audit work has not identified any issues in respect of the recognition and presentation of grants income	Light Purple

Assessment

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

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee and management and been made aware of incidents relating to overpayments due to Council Tax Reduction Scheme, Housing Benefits, Council Tax, Business Rates and COVID-19 Business Grants. 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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to banks and other investment and borrowing counterparties. This permission was granted and the requests were sent. Most of these requests were returned with positive confirmation, however one request has so far not been received. If required, we will undertake alternative procedures.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. We identified the omission of an accounting policy for Joint Operations to reflect the accounting of Council's shared services for Revenues and Benefits, and Corporate Enquiries.
Audit evidence and explanations/ significant difficulties	Some difficulty was experienced in obtaining breakdowns of year end debtors and creditors balances which caused us delays in selecting samples for audit testing. There have also been delays in the response to our enquiries of management during our risk assessment processes. Further delays have been encountered in receiving evidence to support data inputs (such as floor areas) used in the valuation of property, plant and equipment and in receiving responses to audit queries relating to the Council's infrastructure assets. We acknowledge that the Council has experienced difficulties due to capacity being diverted to deal with COVID-19 grants application processing. Additionally, both the Council and ourselves have had to contend with the continuing pressure of remote working.

2. Financial Statements - other communication requirements

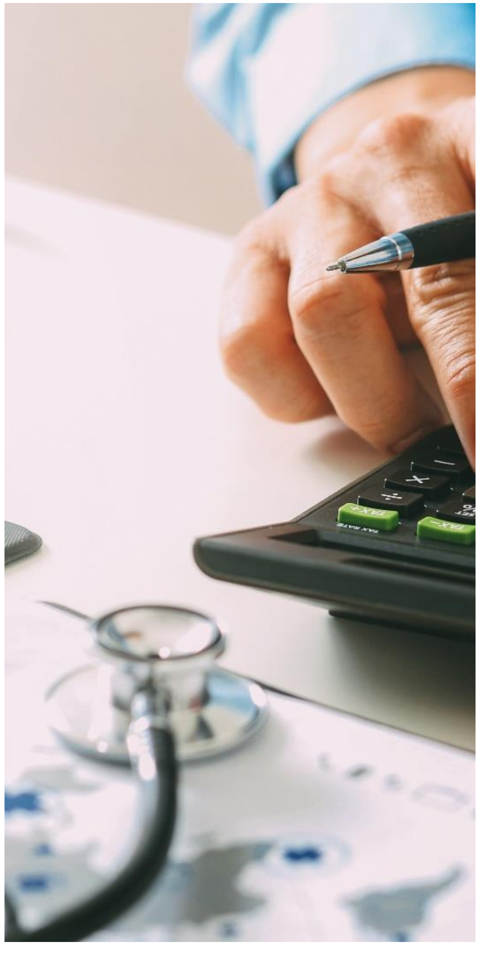
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement 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 significant inconsistencies have been identified. Some minor typos and omissions were identified and corrected by management. We plan to issue an unmodified opinion in this respect – refer to Appendix E
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties • where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. We have nothing to report on these matters.
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. • Note that work is not required as the Council does not exceed the threshold for completion of NAO specified procedures;
Certification of the closure of the audit	We intend to certify the closure of the 2020/21 audit of Preston City **Council** in our audit report, as detailed in Appendix E.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weaknesses at the planning stage and have continued to monitor the Authority's finances, governance arrangements and performance monitoring during the audit for any indications of risks of significant weaknesses in arrangements.

We have not identified any significant weaknesses in the Council's arrangements during the course of our audit and propose to report that we are satisfied that the Authority had proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

4. Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers). In this context, we disclose the following to you:

Sophia Iqbal, an audit manager who works for Grant Thornton UK LLP in the Public Sector Audit team, is the daughter of Javed Iqbal, who is a councillor, and has been Mayor of Preston City Council since May 2021, having been Deputy Mayor prior to this. In order to mitigate against any perceived or actual threat to the independence of the audit team as regards the financial statements of Preston City Council, Sophia, and all those she line manages, have played no role in the audit of Preston City Council and the audit team has not discussed any matters arising from the audit with her.

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

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

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 (grantthornton.co.uk)]

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, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of 2020/21 Housing Benefits grant - work yet to begin	19,200	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 £19,500 in comparison to the total fee for the audit of £71,683 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of 2019/20 Housing Benefits grant – certified 16/3/21	16,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £16,500 in comparison to the total fee for the audit of £71,683 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.

Appendices

A. Action plan – Audit of Financial Statements

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	**Journals posted by Senior Officers** • The Director of Resources and s151 Officer has the ability to post journals on the system. Our audit procedures did not identify any journals that had posted by the Director of Resources and s151 Officer in the year. • The ability for such a senior officer to post journals increases the risk of management override of controls.	Review access controls to posting journals of senior officers. **Management response** These are legacy permissions and no journals have been posted by the Director of Resources and S151 Officer for a number of years. The permissions have already been amended to 'view only' as a result of this recommendation and therefore this increased risk is now addressed.
Medium	**Immaterial Prior Period Adjustments** • In the draft accounts, notes 10 (Grant Income), 20(b) (Capital Grants Unapplied) and 22 (Cash Flow Statement – Operating Activities) all included immaterial restatements of 2019/20 figures.	There is no requirement to make adjustments for immaterial prior period errors or misclassifications. **Management response** In the instance of these particular prior period restatements in the notes to the accounts, we felt the usefulness to the reader in having the correct comparative figure outweighed the immaterial nature of the error.
Medium	**Capacity to respond to audit queries** • As noted on page 4 of this report, we have experienced delays in progressing the Council's 2020/21 financial statements audit.	We recommend the Council reviews the capacity of its finance team to respond to the audit process in a timely manner to facilitate achievement of audit timetables. **Management response** The Finance Team have appointed to three posts over recent months, while several existing members of the team have increased their working hours. We have also reviewed responsibilities internally, with the key audit liaison role now moving to a Principal Accountant. That said, we are still experiencing difficulties recruiting to two key professional posts but have brought in highly experienced interim cover to increase capacity.
Medium	**Accounting for infrastructure** • As noted on page 11 of this report, Prior Period Adjustment of the Council's financial statements was required in relation to infrastructure asset balances.	We recommend management investigates underlying infrastructure assets further, with a view to processing any further adjustments required within the 2021/22 financial statements. We recommend that management keeps the useful lives of infrastructure assets, used in calculating depreciation charges, under review. **Management response** A complete review and further adjustments have been undertaken for the 2021/22 financial statements. An annual review of useful lives of infrastructure assets will be undertaken.

Controls

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

B. Follow up of prior year recommendations

We identified the following issues in the audit of Preston City Council's 2019/20 financial statements, which resulted in three recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and note two are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Journal self-approval** • Manual journals within the financial ledger are input by approved personnel, but they are not subject to authorisation controls at the time of input. • The risk is that the lack of authorisation controls at the time of input creates a higher level of risk of error or manipulation. **Recommendation** • Review the authorisation procedures in place over journal input.	**Management response at planning** Due to the size of the team, it is reasonable for members of the finance team to be able to authorise their own journals. However, regular balance sheet reconciliations and budget monitoring are undertaken to ensure erroneous journals would be detected.
✓	**Assets not revalued in line with rolling programme** • We identified two properties that had not been subject to a formal valuation for more than five years. This is a breach of the requirements of the CIPFA Code which requires valuations of whole classes of assets to be carried out at intervals of no more than five years. **Recommendation** • Review the programme of cyclical valuation to ensure all assets are caught up and brought in line with the five-year valuation cycle required by the Code.	**Management response at planning** We have formally set aside funds for the implementation of a Civica asset management module. The first stage of purchasing the module is complete and the 2nd stage of implementation has been slightly delayed due to Covid but plans are currently review. This asset management module will assist in mitigating the risk of this happening in the future.
X	**Date of valuations** • Most Other Land and Building, Surplus and Investment Property assets are valued as at 1st April each year or part of the five-year cycle. Whilst permissible by the CIPFA Code, since the reporting date is the 31st March, a year later there is a risk that the value of these assets is significantly different at the reporting date. **Recommendation** • Consider having Other Land and Building, Surplus and Investment Property assets valued as at 31st March each year and part of the five-year cycle.	**Management response** Our management action from last year, to consult with the Council's Property Services team on the practicalities of implementing this change with a view to having this put into practice for 2020/21 accounts, has unfortunately been delayed due a number of changes in staff in both Property Services and Financial Services in addition to the continued covid response. This will be now reviewed with a view to putting in place for the 2021/22 accounts.

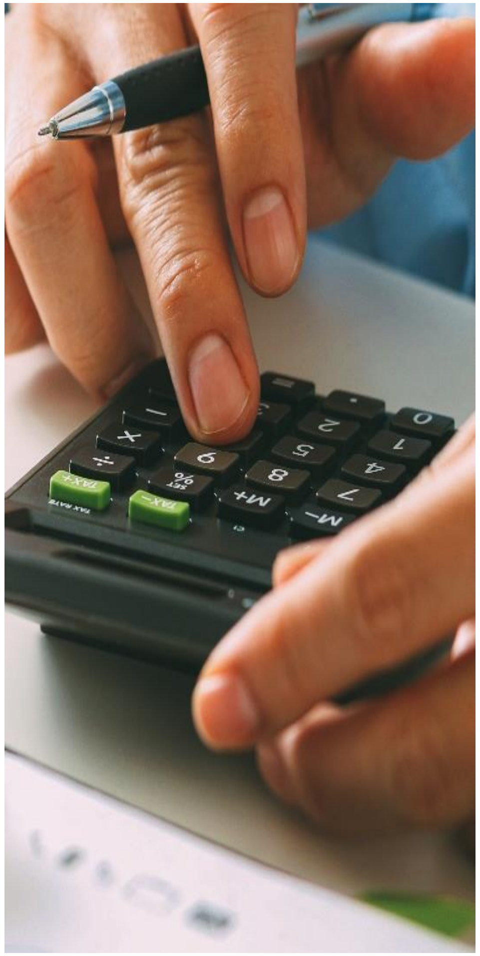
Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.



Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

We identified an error in Note 11 – Property, Plant and Equipment whereby the brought forward figures for Cost or Valuation and Accumulated Depreciation as at both 1st April 2020 and 1st April 2019 was grossed up as they included equal values of impairment that had been written off to the CIES in previous years. The overall impact was no change to the net book value shown on the Balance Sheet. To correct this an adjustment is required to both the 2020/21 and 2019/20 Property, Plant and Equipment notes in the financial statements.

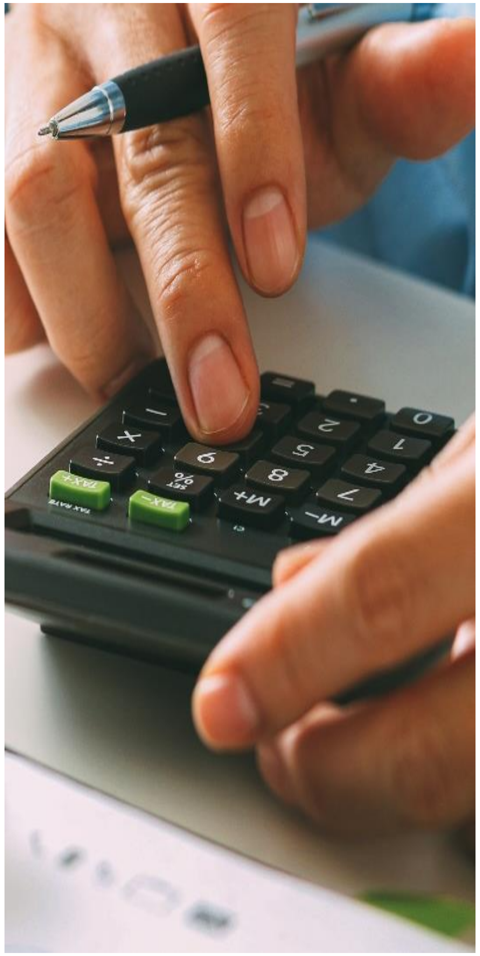
We also identified a misclassification between Customer and Central Services on the Comprehensive Income and Expenditure Statement of Trading income and expenditure. It has no overall impact on net costs of services. To correct this an adjustment is required to both the 2020/21 and 2019/20 Service Segments section of the Comprehensive Income and Expenditure Statement in the financial statements.

These were not included within the Audit Findings Report reported to the Audit Committee on 24 November 2021.

Detail	CIES £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
Removal of the grossed up Cost or Valuation and Accumulated Impairment as at 1st April 2020			
Dr Accumulated Impairment of PPE		18,289	
Cr Cost or Valuation of PPE		(18,289)	
Removal of the grossed Cost or Valuation and Accumulated Impairment as at 1st April 2019.			
Dr Accumulated Impairment of PPE		17,656	
Dr Impairment losses recognised in the Surplus / Deficit on the Provision of services – Depreciation		490	
Cr Cost or Valuation of PPE		(17,656)	
Cr Impairment losses recognised in the Surplus / Deficit on the Provision of Services – Cost or valuation		(490)	
Reclassification of trading income and expenditure in the Cost of Services 2020/21			
Dr Customer Services – Gross Income	2,821		
Dr Central Services – Gros expenditure	877		
Cr Central Services – Gross Income	(2,821)		
Cr Customer Services – Gross Expenditure	(877)		
Reclassification of trading income and expenditure in the Cost of Services 2019/20	2,936		
Dr Customer Services – Gross Income	1,028		
Dr Central Services – Gros expenditure	(2,936)		
Cr Central Services – Gross Income	(1,028)		
Cr Customer Services – Gross Expenditure			
Overall impact	**Nil**	**Nil**	**Nil**

C. Audit Adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.



Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Management identified the inclusion of 18 infrastructure assets which had transferred to Lancashire County Council in 2006/07 and subsequently processed a prior period adjustment to retrospectively correct the Balance Sheet position. A consequential adjustment was required to reduce the depreciation charged on infrastructure assets within the Comprehensive Income and Expenditure Statement.

Detail	**CIES £'000**	**Balance Sheet £' 000**
Removal of infrastructure assets transferred to Lancashire County Council 2006/07		
Dr Capital Adjustment Account		2,713
Cr Property, Plant and Equipment		(2,713)
Dr Property, Plant and Equipment (depreciation effect)		163
Cr Depreciation expense	(163)	
Cr Capital Adjustment Account		(163)
Dr General Fund (via MIRS)		
Overall impact	Cr CIES 163	Cr PPE (hence net assets) £2,550 Dr Unusable reserves £2,550

C. Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
Shared Services Reference to the Council's Shared Services is made in Note 30 – Related Parties. As reported in the 2019/20 Audit Findings Report, these do not meet the definition of a related party under IAS 24.	Transactions resulting from the Council's Shared Services should be disclosed in a separate Joint Operations note, and an accounting policy for joint Operations should be included. **Management response** We will update for 2021/22 accounts.	X
Accounting policies – Revenue Expenditure Funded by Capital Under Statute (REFCUS) The CIPFA Code and Capital Guidance is not clear as to whether grant income used for REFCUS should be charged to the service that qualifying income is charged to or should be charged to Taxation and Non-Specific Grant Income on the Comprehensive Income and Expenditure Statement (CIES).	Management should update their accounting policy to clarify their approach to where grant income used for REFUCS is charged to on the CIES.	✓
Accounting policies - Property. Plant and Equipment One asset, classified as part of Other Land and Buildings (OLB) was valued on a fair value basis in 2019/20, and so remains held at that value on the same basis. The accounting policies state Land and buildings and other operational assets are valued at current value determined as the amount that would be paid for the asset in its existing use existing use value – EUVs. Where sufficient market evidence is not available, this is estimated at depreciated replacement cost.	The accounting policy should clarify that this asset is valued on a fair value basis and that this is not consistent with the CIPFA Code.	✓
Accounting policies The draft accounts included policies for intangibles assets, inventory and Long term contracts, and non-current assets held of sale, which are not material figures in the accounts. Therefore, their inclusions runs the risk of obscuring more important policies.	Accounting policies for immaterial figures in the accounts should be removed. **Management response** As these Accounting Policies may relate to disclosures which do become material we will keep under review. For example, long-term contracts will become material due to large Towns Fund funded contracts.	X
Critical Judgements in Applying Accounting Policies The CIPFA Code requires authorities to disclose, the judgements, apart from those involving estimations, that management has made in the process of applying the authority's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. In Note 4, for the paragraph on 'Funding' it is not clear what judgements management has made in relation to applying an accounting policy.	Management should review this disclosure and clarify the judgements they have made. **Management response** We will review these disclosures for 2021/22 along with Assumptions and Estimation Uncertainty to ensure they meet best practice and disclosure requirements.	X

C. Audit Adjustments

Disclosure omission	Auditor recommendations	Adjusted?
Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty In the draft accounts, Note 4 stated that the Lancashire County Pension Fund disclosed 'material estimation uncertainty' in their accounts in relation to their property assets as a result of COVID-19 and this had a knock-on effect on the Council's share of assets. There was no such 'material estimation uncertainty disclosed in the Lancashire County Pension Fund accounts.	Reference to the material estimation uncertainty should be removed from the disclosure.	✓
Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty The CIPFA Code requires the disclosure of information about the assumptions it makes about the future and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, and also include some sensitivity analysis to helps users of the accounts understand the impact of changes of key assumptions.	For Business Rates – NNDR and Fixed Assets, some clarifications are required to the disclosure and sensitivity analysis. Management response We will review these disclosures for 2021/22 along with Assumptions and Estimation Uncertainty to ensure they meet best practice and disclosure requirements	X
Narrative on restatements In the draft accounts, Note 8 had a restated column for 2019/20 figures, but no explanation as to why.	A brief narrative should be added to explain the nature and reason for the restatement	✓
Prior period adjustment disclosure – Property, Plant and Equipment note (note 11) As noted in the Impact of prior year unadjusted misstatements section below, a prior period adjustment was made. This adjustment was included in the updated statement of accounts taken to the Audit Committee on 24 November 2021, but there was no explanation as to the why the change had been made.	Due to the material value of it, further disclosure is required to explain the reason for the change, the previously stated position, the adjustment and the restated position.	✓
Prior period adjustment disclosure – Taxation & Non-Specific Grant note (note 8) In the draft accounts, the note included a restatement of the 2019/20 figures. This was due to the reclassification of £3,515k of section 31 grants from 'General Government Grants' to 'Business Rate Retention Scheme'. The PPA affects the disclosure analysis and not the primary statement. No explanation of the restatement was included in the draft accounts.	Include a short narrative explanation of why the 2019/20 figures have been restated and by how much.	✓

C. Audit Adjustments

Disclosure omission	Auditor recommendations	Adjusted?
Guildhall contingent liability (note 35 vi) In the draft accounts, disclosure around the 'Guild Hall Legal Challenge' contingent liability. IAS37 requires disclosure of the estimated financial effect, and an indication of the amount and timing of outflows, unless it is not practicable or seriously prejudicial to the council's position in a dispute in which case that facts should be disclosed.	The Council should disclose the reasons it is unable to disclose the estimated financial effect, and an indication of the amount and timing of outflows.	✓
Prior Period Adjustment note We identified a misclassification between Customer and Central Services on the Comprehensive Income and Expenditure Statement of Trading income (£2,936k) and expenditure (£1,028k). It has no overall impact on net costs of services. Management identified an overstatement of infrastructure asset balances, relating to assets which transferred to Lancashire County Council in 2006/07. A PPA has been effected, resulting in a reduction in net assets and unusable (capital adjustment account) reserves of £2.7m.	Disclosure meeting the requirement of IAS 8 is necessary to further explain the adjustments made to the 2019/20 financial statements as previously presented.	✓

Impact of unadjusted misstatements

We have identified one potential unadjusted misstatement for the year ending 31 March 2021. Nine infrastructure assets with a gross book value of £468k and a net book value of £242k are recognised within the financial statements although there is some uncertainty as to their existence and some of these assets are fully depreciated and may no longer be in use. We are satisfied the impact is not material to the financial statements, but recommend management investigate these assets further as part of the preparation of the 2021/22 financial statements.

Impact of prior year unadjusted misstatements

We have not identified any unadjusted misstatements for the year ending 31 March 2020.

D. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£71,683	£96,683
Total audit fees (excluding VAT)	**£71,683**	**£96,683**

Additional audit fees have arisen during the course of the 2020/21 audit relating to the prior period adjustments referred to in this report and due to the delays encountered in receiving audit evidence to enable us to conclude the Council's audit.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services – Certification of Housing Benefit Claim	£19,200	TBC
Total non-audit fees (excluding VAT)	**£19,200**	**TBC**

E. Audit opinion

Our audit opinion is included below. We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of Preston City Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Preston City Council (the 'Authority') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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 Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Director of Resources with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Resources and Those Charged with Governance for the financial statements' section of this report.

E. Audit opinion

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the 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 in April 2020 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 'delivering good governance in Local Government Framework 2016 Edition' 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 matters 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, 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.

Matters on which we are required to report by exception

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

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

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

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

As explained in the Statement of Responsibilities for the Statement of Accounts set out on page 21, 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 Director of Resources. The 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the 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 Director of Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

E. Audit opinion

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

Auditor's responsibilities for the audit of the financial statements

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21,The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Director of Resources has in place to prevent and detect fraud;
  - journal entry testing;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property and defined benefit pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment property and defined benefit pensions liability valuations.

E. Audit opinion

- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in respect of the above matter

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 issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We have documented our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we have considered whether there is evidence to suggest that there are significant weaknesses in arrangements.

E. Audit opinion

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

We cannot formally conclude the audit and issue an audit certificate for Preston City Council for the year ended 31 March 2021 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 2021.

We are satisfied that this work does not have a material effect on the financial statements.

Use of our report

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

Signature:

John Farrar

Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

[** Office location**]

Date:

F. Audit letter in respect of delayed VFM work

Grant Thornton

Chair of Audit Committee
Preston City Council,
Town Hall,
Preston,
PR1 2RL

Grant Thornton UK LLP
Royal Liver Building
Liverpool
L3 1PS

+44 (0)151 224 7200

29 September 2021

Dear Councillor Woolam,

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 January 2022.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

John Farrar

John Farrar

Director

For and on behalf of Grant Thornton UK LLP

grantthornton.co.uk