

The Audit Findings for Preston City Council

Year ended 31 March 2022

Preston City Council
27 October 2023



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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 : 27 October 2023**

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.

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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 2022 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 performed between December 2022 and October 2023 through a combination of on-site and remote working. Our findings are summarised on pages 5 to 18. We have not identified any adjustments to the financial statements. Audit adjustments to the notes to the accounts are detailed in Appendix C. We have also raised a recommendation for management as a result of our audit work as detailed in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. The Council have recognised an adjusting Post Balance Sheet Event following completion of the triennial valuation exercise in March 2023 which has reduced the valuation of the net pension liability from £72.6m to £55.0m. We have detailed our assessment of this on page 10. The Council have also recognised an adjusting Post Balance Sheet Event relating to a legal settlement. This has increased provisions and gross expenditure by £1.37m. Adjustments made due to Post Balance Sheet Events are detailed in Appendix C.

Our work is complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix E] or material changes to the financial statements.

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

Our 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, which is summarised on page 19, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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 weaknesses in this regard.

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 will certify the completion of the audit when we give our audit opinion.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

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 previously communicated to the Audit Committee.

Conclusion

We have completed our audit of your financial statements and will issue an unqualified audit opinion as detailed in Appendix E. These outstanding items include:

Acknowledgements

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

During the course of the audit, we carried out additional audit procedures to gain sufficient assurances to support the audit opinion. As noted on page 29, this has required additional resource from our audit team.

In addition, as detailed on page 16, we encountered delays with obtaining key client deliverables which has contributed to additional resource requirements from the audit team and has also contributed to delays to the 2021/22 audit schedule.

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.

Materiality levels remain the same as reported in our audit plan.

We detail in this table our determination of materiality for Preston City Council.

Council Amount (£) Qualitative factors considered

Materiality for the financial statements	1,690,000	This equates to around 2% of your draft account gross operating expenditure for the year and is considered to be the level of magnitude sufficient to influence decisions of users of the accounts.
Performance materiality	1,099,000	Assessed to be 65% of financial statement materiality, to reflect the recent track record for producing financial statements requiring some adjustments.
Trivial matters	84,500	This equates to 5% of materiality.
Materiality for senior officer remuneration disclosures	20,000	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 determined 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 regards 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. We have identified a weakness in authorisation controls relating to the ability of Finance staff to post journals without prior review and approval which increases the risk of fraud and error. 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

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.

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.

Commentary

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.

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 re-values its land, buildings and 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 magnitude of the valuation (£90.9 million as at 31 March 2022) 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 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 experts
- written to the valuers to confirm the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuers 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 valuation of other land and buildings, surplus assets and investment properties.

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 magnitude of the valuation (£54.971 million as at 31 March 2022) 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 net liability.

However, through our assessment of the accuracy and completeness of the information provided by the Pension Fund to the actuary, we identified an error that has resulted in a material current and prior period adjustment affecting the gross values of both pension assets and liabilities within the Defined Benefit Pension Scheme disclosures. The net pension liability in the balance sheet is not affected by this error as it is limited to the disclosure reconciling the movements of the valuations of assets and liabilities through the period. The misstatement is therefore not directly linked to the significant risk over the valuation of the net liability. See Appendix C for details of the current and prior period adjustments resulting from this finding.

The Council have recognised an adjusting Post Balance Sheet Event following completion of the triennial valuation exercise in March 2023 which has reduced the valuation of the net pension liability from £72.6m to £55.0m. The draft accounts were prepared on the basis of the actuarial valuations prepared in 2022 which estimated the net pension liability using a 'roll forward' approach which is based on valuations from the previous triennial valuation completed in March 2020. The Council consider the completion of the triennial valuation to be an adjusting event which requires the draft accounts to be amended to reflect the existence of more reliable data about conditions existing as at 31 March 2022.

We have assessed these amendments and conclude that management have appropriately reported the Post Balance Sheet Event and amended the accounts to report these valuations based on most the reliable information available.

We note that the revised valuation has incorporated an adjusted assumption for the rate of increase in salaries as at 31 March 2022. Although we do not consider the triennial valuation exercise to provide more accurate information than the initial valuation about conditions existing as at 31 March 2022 relating to salary increases, the impact of this amendment is immaterial to the accounts and we therefore consider the valuation to be fairly stated.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Other Land and Buildings: £48.0m</p> <p>Surplus Assets: £2.1m</p> <p>Investment Properties: £40.8m</p>	<p>Other land and buildings comprises £48.0m of non-specialised assets such as council offices, markets, parks and public conveniences, which are required to be valued at existing use in value (EUUV) at year end. The Council has engaged their internal valuers to complete the valuation of non-specialised properties on a five yearly cyclical basis as at 31 March. 2.4% (54% in prior year) of other land and building assets by value were revalued for the 2021/22 accounts.</p> <p>Surplus assets comprises £2.1m 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. 5.6% (47% in prior year) of surplus assets by value were revalued for the 2021/22 accounts.</p> <p>Investment properties comprises £40.8m 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 their internal valuers to complete the valuation of non-specialised properties as at 31 March 2022. All investment properties were revalued in 2021/22.</p> <p>Through our procedures over the yields applied in valuing Investment Property we identified £30.4m of Investment Properties that generate ground rents for which there is an absence of directly observable inputs in calculating the estimates. We therefore challenged the classification of these assets as Level 2 investments in the Fair Value Hierarchy. Management have amended the accounts to classify these as Level 3 investments.</p>	<p>We have reviewed the estimate, considering:</p> <ul style="list-style-type: none"> • An assessment of whether the internal valuers used as management's expert are 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 estimates against independent industry data; • 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. 	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	<p>Management have considered the year end value of non-valued properties by reviewing all assets with a value greater than £0.5m to determine whether there has been a material change in the total value of these properties.</p> <p>The valuation of other land and buildings properties valued by the valuer has resulted in a net decrease of £2.0m. The total year end valuation of other land and buildings including this and other movements was £48.0m, a net decrease of £1.1m from 2020/21 (£49.1m).</p> <p>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 £2.1m, a net increase of £0.1m from 2020/21 (£2.0m).</p> <p>The valuation of investment properties valued by the valuer has resulted in a net increase of £0.717m. The total year end valuation of investment properties, including this and other movements was £40.8m, a net increase of £0.2m from 2020/21 (£40.6m).</p>	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 – £55.0m	<p>The Council participates in the Lancashire Pension Fund and, as at 31/3/22, the Council's net liability was £55.0m (PY £97.7m). 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.</p> <p>The latest full actuarial valuation was completed as at 31 March 2022. We therefore conclude that the pension liability valuation is based on the most accurate data and assumptions available. There has been a £50.6m net actuarial gain during 2021/22 (£22.5m loss in 2020/21).</p>	<p>We reviewed the detail of your assessment of the estimate, considering :</p> <ul style="list-style-type: none"> 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 <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.8%</td> <td>2.7%-2.8%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>3.4%</td> <td>3.0% - 3.5%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>4.8%</td> <td>4.65% - 4.9%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.6/ 21.4</td> <td>22.2-24.8 / 20.7 - 23.3</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.5/23.7</td> <td>25.7 - 27.5 / 23.7 - 25.5</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> 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 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.8%	2.7%-2.8%	●	Pension increase rate	3.4%	3.0% - 3.5%	●	Salary growth	4.8%	4.65% - 4.9%	●	Life expectancy – Males currently aged 45 / 65	22.6/ 21.4	22.2-24.8 / 20.7 - 23.3	●	Life expectancy – Females currently aged 45 / 65	25.5/23.7	25.7 - 27.5 / 23.7 - 25.5	●	Light purple
Assumption	Actuary Value	PwC range	Assessment																								
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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 - £3.4m	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. Due to a reduction in outstanding appeals, the provision has decreased by £0.7m in 2021/22.	<p>We reviewed the detail of your assessment of the estimate, considering:</p> <ul style="list-style-type: none"> • 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. <p>We have not identified any material issues in respect of the NNDR appeals provision.</p>	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	<p>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.</p> <p>The Council is acting as the principal and credited grants to the Comprehensive Income and Expenditure Statement including:</p> <ul style="list-style-type: none"> • COVID-19 funding • New Homes Bonus • Benefits related grants • Business rates reliefs • Developer contributions • Community Infrastructure Levy • Disabled Facilities Grant <p>The Council is acting as an agent in respect of COVID-19 funding to support local businesses, therefore the related government grant is not recognised as income to the Council. 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 require the monies to be returned to the giver.</p>	<p>Our audit work included consideration of:</p> <ul style="list-style-type: none"> • 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 <p>Our work has not identified any material issues with regards to grant income recognition.</p>	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. 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, which is included in the Audit Committee papers.
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. These requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures and have not identified weaknesses.
Audit evidence and explanations/significant difficulties	<p>Most information and explanations requested from management was provided to schedule although there were substantial delays with obtaining some key pieces of audit evidence including:</p> <ul style="list-style-type: none"> • Responses to our planning enquiries from management informing our fraud risk assessments, compliance with laws and regulations, related party transactions and accounting processes implemented for reporting of accounting estimates • Property valuation report • Payroll reports to support our analytical procedures • Amended accounts reflecting Prior Period Adjustments, Post Balance Sheet Events and agreed amendments to the accounts <p>We had planned to deliver the audit opinion by the end of February 2023 and, aside from the delays listed above, were sufficiently progressed to do so.</p>

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	<p>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:</p> <ul style="list-style-type: none">• 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. <p>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:</p> <ul style="list-style-type: none">• 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. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none">• 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	<p>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.</p> <p>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</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters</p>
Specified procedures for Whole of Government Accounts	<p>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.</p> <ul style="list-style-type: none"> • These procedures are not required as the Council does not exceed the threshold for completion of NAO specified procedures.
Certification of the closure of the audit	<p>We will certify the closure of the 2021/22 audit of Preston City Council in the audit report, as detailed in Appendix E.</p>



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

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



Financial Sustainability

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



Governance

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

Potential types of recommendations

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



Statutory recommendation

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



Key recommendation

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



Improvement recommendation

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

3. VFM - our procedures and conclusions

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

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

5. Independence and ethics

Ethical Standards and ISA (UK) 260 require us to disclose to you on a timely basis all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers and 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 was Mayor of Preston City Council in 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 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

5. Independence and ethics

Audit and non-audit services


For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the 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	Proposed Fees £	Threats identified	Safeguards
Audit related			
Certification of 2021/22 Housing Benefits grant	22,080	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 was proposed to be £22,080 in comparison to the total fee for the audit of £125,000 and even less significant 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 Council have informed management in place and the Council will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.




Appendices

A. Action plan – Audit of Financial Statements

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on this recommendation during the course of the 2022/23 audit. The matter reported here is limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
	We identified a discrepancy between the information regarding employer contributions provided by the Lancashire Pension Fund to the actuary and the actual contributions made by Preston City Council in the period. This has caused an error which has also required a prior period adjustment.	<p>We recommend that the Council engages with both the actuary and the Lancashire Pension Fund to ensure that information used to calculate the various pension disclosures is a fair representation of events in the period</p> <p>Management response</p> <p>The Council accepts the recommendation and, whilst the engagement process is already in place with both the actuary and the Lancashire Pension Fund, the Council will issue additional challenge if there are any accounting changes during the accounting period.</p>

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 2020/21 financial statements, which resulted in five recommendations being reported in our 2020/21 Audit Findings report. We are pleased to report that management have implemented all but one of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Journals posted by Senior Officers</p> <p>The Director of Resources and s151 Officer had the ability to post journals on the system although our audit procedures had not identified any journals that has posted in the year. The ability for a senior officer to post journals increases the risk of management override of controls.</p>	This access has been revoked in line with our recommendation.
✓	<p>Immaterial Prior Period Adjustments</p> <p>We identified some immaterial restatements of prior period balances despite these not being required by the Code.</p>	Our audit procedures over the 2021/22 financial statements have not identified any immaterial prior period adjustments in the accounts.
✓	<p>Capacity to respond to audit queries</p> <p>Our 2020/21 audit was delayed due to limited capacity within the Council's Finance team to respond to audit queries.</p>	Our 2021/22 audit has encountered fewer delays due to improved capacity within the Finance team; delays encountered were largely due to issues with obtaining evidence from other services.
✓	<p>Review of infrastructure assets</p> <p>Following the prior period adjustment disclosed in the 2020/21 accounts, we recommended that the Council continues to review these assets to identify further adjustments that may be required. We also recommended that the Council continues to review useful lives of assets which are used to calculate depreciation charges.</p>	We have confirmed through our 2021/22 audit that these reviews have taken place in line with the recommendation. The Council have also adequately considered the impact of the recent CIPFA issue of Bulletin 12 which provides guidance regarding the Statutory Instrument introduced in December 2022 to temporarily resolve issues faced by Local Government entities with accounting for infrastructure assets.
X	<p>Journal self-approval</p> <p>Finance staff are able to post journals without prior review and approval which increases the risk of fraud and error.</p>	Management are content that the reconciliation and budgetary detective controls are sufficient to mitigate the risk of manipulation of the accounts arising from this control deficiency.

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 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
Recognition of employer pension contribution as a pension asset			
Dr Pension Asset		6,026	
Cr Gross pension liabilities		(6,026)	
Overall impact	Nil	Nil	Nil

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?
<p>Critical judgements</p> <p>Critical judgements listed in the Accounting Policy note do not relate to judgements that are critical to the accounts and are not in line with the requirements of the Code for this note</p>	Remove any judgements listed that are not in line with disclosure requirements	✓
<p>Prior period adjustment</p> <p>Opening balances of gross pension assets and liabilities require restatement as noted above. This requires a note inserting to set out the nature of the restatement and the impact on the accounts</p>	Disclose the prior period adjustment of pensions balances as required under the Code including a reconciliation to the closing balances reported in 2020/21.	✓
<p>Bank overdraft</p> <p>A bank overdraft balance should only be disclosed gross of the current account balance where there is no legal right held by the Council to offset the overdraft against cash held in the current account. The Council have confirmed that this legal right exists.</p>	The cash note requires an amendment to show the current account balance and the overdraft stated net of each other.	✓
<p>Fair Value classifications of Investment Property</p> <p>Through our procedures over the yields applied in valuing Investment Property we identified £30.4m of Investment Properties classified as Level 2 investments that generate ground rents for which there is an absence of directly observable inputs in calculating the valuations.</p>	We challenged the classification of these assets as Level 2 investments in the Fair Value Hierarchy. Management have amended the accounts to classify these as Level 3 investments.	✓

C. Audit Adjustments

Impact of Post Balance Sheet Events adjustments

Adjustments relating to Post Balance Sheet Events that the Council consider to be adjusting events 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 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Change to the pension liability based on the revised IAS 19 actuary report that was obtained following completion of the triennial valuation exercise			
Dr Net pension liability		17,520	
Cr Pension Reserve		(17,520)	
Recognition of an adjusting Post Balance Sheet Event relating to a legal settlement.			
Dr Gross Expenditure	1,369		1,369
Cr Provision for settlements and legal costs		(1,369)	
Overall impact	1,369	(1,369)	1,369

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	£125,000
Total audit fees (excluding VAT)	£71,683	£125,000

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services – Certification of Housing Benefit Claim	£22,080	TBC
Total non-audit fees (excluding VAT)	£22,080	TBC

Details of variations in final fees from the proposed fee per the audit plan

The fee disclosed in the accounts can be reconciled to the final audit fee as follows:

- Fees per financial statements- £75k
- Less fee variation for 2020/21 audit work performed in 2022/23 (£25k)
- Fee variation for 2021/22 audit work performed in 2022/23 £75k
- total fees per above** £125k

D. Fees-detailed analysis

	Fee
Scale fee published by PSAA	£49,683
Raising the bar/regulatory factors	£5,000
New standards / developments	£6,000
Additional work on Value for Money (VfM) under new NAO Code	£11,000
Proposed audit fee as per Audit Plan	£71,683
Delays with provision of key client deliverables and costs associated with extended audit process from March 2022 to October 2023	£37,317
Pension liability valuation – prior period adjustment	£5,000
Pension liability valuation – post balance sheet event evaluation and adjustment	£6,000
Provisions – post balance sheet adjustment	£5,000
Final audit fee	£125,000

E. Audit opinion

Our audit opinion is included below.

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 2022, which comprise 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 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 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 2021/22; 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 2021/22 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.

E. Audit opinion

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, Director of Resources and Those Charged with Governance for the financial statements' section of this report.

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.

E. Audit opinion

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, 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 2021/22, 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.

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 2021/22, 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:

E. Audit opinion

- 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.
- Our 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 2022.

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

E. Audit opinion

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 December 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.

Report on other legal and regulatory requirements – Audit certificate

We certify that we have completed the audit of Preston City Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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

Liverpool

Date:

F. Management Letter of Representation

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

Preston City Council Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Preston City Council for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

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

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include pension assets and liabilities valuations and land and building valuations. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and

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disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

- xi. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. The prior period adjustment disclosed in explanatory note 38, and within Note 35 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.
- xv. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :
 - a. the nature of the Council means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
 - b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
 - c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

- xvi. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements
- xvii. The Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council's financial statements in the event of non-compliance.

Information Provided

- i. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements from whom you determined it necessary to obtain audit evidence.
- ii. We have communicated to you all deficiencies in internal control of which management is aware.
- iii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- iv. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- v. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- vi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

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- vii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- viii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- ix. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

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

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on [ENTER DATE].

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council

