Grant Thornton

The Audit Findings for Preston City Council

Year ended 31 March 2023

31 January 2024

Contents

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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: 31 January 2024

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 2023 for the attention of 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 year-end audit work was completed remotely between October 2023 and January 2024. Our findings are summarised on pages 6 to 21. We have not identified any audit adjustments impacting on the Council’s useable reserves. Our audit work identified a small number of presentational and disclosure adjustments which are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year’s audit are detailed in Appendix C.

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 is unmodified. We have been able to satisfy ourselves that the Council has made proper arrangements in securing economy, efficiency and effectiveness in its use of resources.

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 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	Subject only to the finalisation of our Auditor's Annual Report, we have completed our VFM work, which is summarised on page 23. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
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 upon finalisation of our Auditor's Annual Report.
Significant matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 1% of local government bodies had received audit opinions in time to publish their 2022/23 accounts by the deadline. There has not been an improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of addressing the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Council for their support in working with us.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on council budgets, there are concerns as councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on councils, the risk of potential impairments and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. Our Value for Money audit work at Preston City Council has not highlighted any issues in this area.

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 had not had to alter our audit plan previously communicated to the Audit Committee.

We did encounter delays in obtaining some audit evidence required during the course of the audit which has contributed to additional resource requirements from the audit team and has also contributed to delays in finalising the 2022/23 audit. We acknowledge the context of working with the Council to address the backlog of external audit work has resulted in audit work taking place outside the normal annual cycle of work for officers of the Council. We will continue to work with the Council to normalise the audit timetable for the audit of the 2023/24 and future financial years.

Conclusion

We have issued an unqualified audit opinion.

Acknowledgements

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

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	1,818,000	2% of gross expenditure per draft 2022-23 financial statements
Performance materiality	1,181,000	65% of materiality for the financial statements.
Trivial matters	90,900	5% of materiality for the financial statements
Materiality for senior officer remuneration	20,000	Due to heightened reader interest in this sensitive area.

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 over-ride 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 and implementation of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness • 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 two control weaknesses which are documented in Appendices B and C.

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 on a rolling five-yearly basis and investment properties on an annual basis. These valuations represent significant accounting estimates 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 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.	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 those are not materially different to current value at year end Our audit work has not identified any material issues with the valuation of other land and buildings, surplus assets and investment properties. However, we have identified a control weaknesses which is documented in Appendix B.

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.	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.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
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 Fund, 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 report 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 the pension fund net asset The Council's pension fund valuation represents a significant estimate in the financial statements. This is due to the size and annual fluctuations of the numbers involved (£44.354m pension asset in 2022-23 and a £54.971m liability in 2021-22), and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). However, for the first time since International Financial Reporting Standards have been adopted in the public section, the Council (in common with a number of local authorities in 2022-23) has had to consider the potential impact of IFRIC 14 on the Authority's IAS 19 accounting – the limit on recognition of a defined benefit asset. As a result of this, we have assessed the recognition, valuation and disclosures of the Council's share of the pension asset as a significant risk. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the Council but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions, we have therefore identified valuation of the Council's share of the Lancashire Pension Fund as a significant risk.	We have: ▪ updated our understanding of the processes and controls put in place by management to ensure that the Council's share of the pension fund is not materially misstated and evaluate 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 balance ▪ 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. **Pension Fund Asset position:** See page 13 overleaf where this is reported. It is important to note that any potential issues or adjustments that may arise from the Council's accounting for its share of the pension fund do not result in any impact on the Council's useable reserves as at 31 March 2023.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the pension fund net asset (continued): Accounting for the Pension Fund Surplus/Asset in the Council's accounts For the first time since International Financial Reporting Standards (IFRS) were adopted in the public sector, the Lancashire Pension Fund in 2022-23 is a surplus or asset position, as opposed to the significant liability balance that has been reported previously. According to the relevant accounting standard, IAS19 (Employee Benefits), when an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of: (a) the surplus in the defined benefit plan (b) the asset ceiling, determined using the discount rate specified in IAS19. The asset ceiling is defined as the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. IFRIC-14 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction) provides guidance on amount that can be recognised in the financial statements. It is unlikely that there will be refunds from the plan to the employer in a local government defined benefit scheme. There are no exit plans in the foreseeable future as these are public sector pension plans. The only possible situation could be potential reductions in future contributions to the plan. The economic benefit available as a reduction in future contributions can be calculated as follows (it will never be less than zero): • present value of IAS 19 future service costs (calculated based on IAS 19 assumptions as at the balance sheet date), less • present value of future service contributions if these are classed as a minimum funding requirement. By doing this, the asset ceiling can be determined (above b) , and this is normally lower than the surplus of the defined benefit plan (above a). Management then needs to consider what should be recognised/disclosed in the financial statements. This should also include any material estimation uncertainties in terms of future economic benefits. Disclosures in respect of material estimation uncertainties would provide further clarity to the reader of the accounts and importantly to comply with relevant accounting principles.	Our work indicated that: ▪ there is a surplus of £50.150m in the funded defined benefit local government pension scheme as at 31 March 2023, representing the Council's share. This is a fluctuation of *£105.121m* from the liability position of *£54.971m* recognised as at 31 March 2022. The biggest fluctuation year-on-year was in the present value of funded defined obligations from *c£338.578m* to c£240.576m (by c28.9%). The primary reason for this decrease is attributable to an increase in the discount rate from 2.80% [31.3.22] to 4.80% [31.3.23] ▪ management had accounted for this £50.150m surplus offset by the £5.796m unfunded benefit liability as a net asset of £44.354m in the draft 2022-23 financial statements presented for audit. This is in common with a number of local authorities based on lack of technical guidance available on this issue at the time of accounts preparation. We accept that this issue is a national one impacting a number of local authorities for the first time in 2022-23 and should be considered in that context. The surplus should have been capped at nil by the IFRIC 14 asset ceiling and the £5.796m unfunded benefit liability separately disclosed – see Appendix D for more details ▪ there was an unfunded defined benefit liability of £5.796m that should have been recognised under IAS19 in the draft 2022-23 accounts. These relate to termination benefits made on a discretionary basis upon early retirement in respect of members of the pension scheme. Previously this balance had been included within the overall pension fund liability amount. With the move to a pension fund asset position this amount should have been accounted for separately as a liability on the Council's balance sheet – as such, we raised a proposed adjustment for this to be included in the revised accounts. During the audit process, we discussed with management the application of IAS19 and IFRIC 14 principles when there is a pension fund asset position. These included: ▪ checking whether there was an assessment of the asset ceiling performed by the actuary and subsequent management actions based on such a calculation. We identified that there was no such calculation done to determine the asset ceiling at the time the draft accounts were presented for audit ▪ checking the rationale for not accounting for the unfunded defined benefit liability (£5.796m). This amount should have been recognised in the Council's balance sheet irrespective of the pension fund asset position. Our audit work identified misstatements in relation to IFRIC 14 which are reported as adjusted misstatements in Appendix D.

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
Land and Building valuations & Investment property valuations	Other land and buildings comprising £19.8m of non-specialised assets such as Council officers, markets, parks and public conveniences, which are required to be valued at existing use value (EUV) 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. 17.6% (2.4% in prior year) of other land and building assets by value were revalued for the 2022/23 accounts. Investment properties comprises £45.2m 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 investment properties as at 31 March 2023. All investment properties were revalued in 2022/23. Management have considered the year end value on 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 value of these properties. Management's assessment of assets not revalued has identified no material change to the property values. The year end balance of land and buildings was £19.8m, a net decrease of £28.2m from 2021/22 (£48.0m), primarily due to the reclassification of the Harris museum to assets under construction. The total year end valuation of investment property was £45.2m, a net increase of £4.4m from 2021/22 (£40.8m).	We have reviewed the estimate, considering: • 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 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 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 estimates; • We have challenged the sensitivities used by the valuer to assess completeness and consistency with our understanding; and • The adequacy of disclosure of the estimate in the financial statements. Our work has not identified any evidence of inappropriate management processes or key assumptions. However, we have identified a control weaknesses which is documented in Appendix B.	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

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td>Net pension surplus

IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments.

IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.</td>
<td>See page 12 for further detailed information and year on year fluctuations, in this case from a net pension liability to a net pension asset which was subsequently capped at nil in accordance with the IRFIC 14 asset ceiling calculation.

The Council continues to use 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 which was undertaken as at 31 March 2022.

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 surplus, small changes in assumptions can result in significant valuation movements. There has been a £128m net actuarial gain during 2022/23.</td>
<td>We have:
• Assessed management's expert
• Assed the actuary's approach taken and deemed it reasonable
• Used PwC as an auditor's expert to assess actuary and assumptions made by actuary (see table below)
<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>4.8%</td><td>4.7 – 4.9%</td><td>●</td></tr>
<tr><td>Pension increase rate</td><td>2.7%</td><td>2.7%</td><td>●</td></tr>
<tr><td>Salary growth</td><td>4.2%</td><td>3.2 – 5.2%</td><td>●</td></tr>
<tr><td>Life expectancy – Males currently aged 45/65</td><td>22.8 / 21.5</td><td>22.4 – 24.3 / 21.0 – 22.6</td><td>●</td></tr>
<tr><td>Life expectancy – Females currently aged 45/65</td><td>25.6 / 23.8</td><td>25.3 – 26.6 / 23.5 – 24.7</td><td>●</td></tr>
</table>
• Confirmed the completeness and accuracy of the underlying information used to determine the estimate
• Confirmed the reasonableness of the Council's share of pension assets
• Confirmed the reasonableness of the decrease in the liability estimate
• Confirmed the adequacy of disclosure of estimate in the financial statements
Detailed audit procedures identified that the pension asset should be capped at nil in line with IFRIC 14 accounting principles. Our audit work also identified that it is not appropriate to offset the net pension asset against the unfunded pension liability. The Authority has adjusted for these items, the details of which are included in Appendix D.</td>
<td>Light purple</td>
</tr>
</table>

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	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.	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 increase 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
Depreciation	Items of property, plant and equipment are depreciated over their remaining useful lives in a manner consistent with the consumption of economic or service delivery benefits. Freehold land is considered to have an infinite life and is not depreciated. Management's accounting policy is that property depreciation should be applied with a straight-line allocation over the life of the property as estimated by the valuer.	In response to this estimate we have: • Reviewed the accounting policy • Recalculated the depreciation charge bases on the useful economic lives as provided by the values as well as an overall recalculation of depreciation • Assessed the reasonableness of the useful economic lives for a sample of assets • Assessed the appropriateness of the policy in line with the financial reporting process. We have not identified any issues in relation to this estimate.	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
Fair value of Borrowings	Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans. The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March 2023.	In response to this estimate, we have: • Reviewed the accounting policy • Considered the adequacy of disclosures of estimate in the financial statements • Agreed material borrowing to external confirmations We have not identified any issues in relation to this estimate.	Light purple
Accruals	The financial statements have been prepared on an accrual basis for all transactions and balances. Activity is accounted for in the year that it takes place, not simply when cash payments received. Where income and expenditure have been recognised, but cash has not been received, a creditor for the relevant amount is recorded in the Balance Sheet.	We have included accruals within our creditors sample testing, for each accrual we have: • Reviewed the accounting policy • Considered the appropriateness of the underlying information used to determine the estimate • Compared the actual income/expenditure paid after the preparation of the draft financial statements • Considered the impact of any changes to valuation method • Considered the adequacy of disclosures of estimate in the financial statements We have not identified any issues in relation to these estimates.	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: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating			
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks
Civica Financials	ITGC assessment (design and implementation effectiveness only)	Green	Green	Green	Green	Management override of controls

Assessment

- Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Not in scope for testing

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 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 have identified a related party which had been omitted in error, this is noted in Appendix D.
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 set out at Appendix G.
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 was not received so we undertook alternative procedures.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statement.
Audit evidence and explanations	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: • Responses to our planning enquiries from management informing our fraud risk assessments, compliance with laws and regulation, related party transactions and accounting processes implementation for reporting of accounting estimates • Property valuation query responses We acknowledge the context of working with the Council to address the backlog of external audit work has resulted in audit work taking place outside the normal annual cycle of work for officers of the Council. We will continue to work with the Council to normalise the audit timetable for the audit of the 2023/24 and future financial years.

2. Financial Statements: other communication requirements

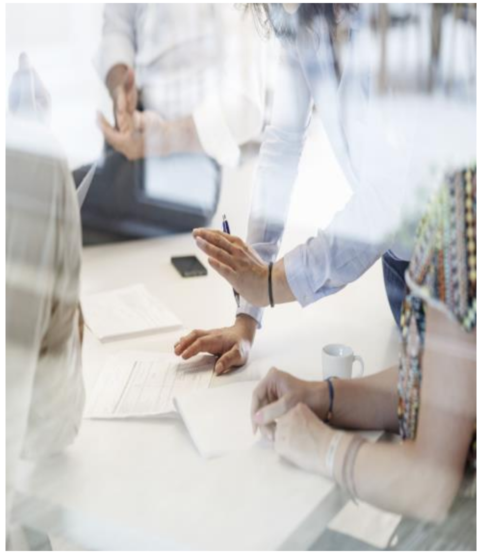
Our responsibility

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 inconsistencies have been identified. We have issued an unmodified opinion in this respect.
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 [a] significant weakness/es. 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. • These procedures are not required as the Council does not exceed the NAO's threshold for their application.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2022/23 audit of Preston City Council in the audit report, pending finalisation of our Auditor's Annual Report.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. 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

We have completed our VFM work, subject only to the finalisation of our Auditor’s Annual 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.

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 was Mayor of Preston City Council in 2021, having been Deputy Mayor prior to this. 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 F.

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 Grant Thornton International Transparency report 2023.

4. 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 audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats. No non-audit services were identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of 2021/22 Housing Benefit 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 is £22,080 in comparison to the scale fee for the audit of £54,184 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.

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council, senior management or staff

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

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified two 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 this recommendation during the course of the 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	**Journals posted by Senior Officers** The Assistant Director and Head of Financial Services has the ability to post journals on the system and we identified they had posted two journals in year. The ability for a senior officer to post journals increases the risk of management override of controls.	We recommend that the Council review access controls to posting journals of senior officers **Management response** The Assistant Director (Head of Financial Services) is involved in operational financial monitoring and control for a number of service areas and major capital schemes within the organisation and so requires the ability to post journals. We will review whether this remains proportional and appropriate during 2024/25 as duties and responsibilities of the finance team as a whole are reviewed.
Medium	**Evidence to support revaluations** As part of the work on PPE and investment property valuation we had some difficulty obtaining audit evidence to support some of the key assumptions used within the valuation	We recommend that the Council retains supporting evidence for all key assumptions used within the valuations. **Management response** XXXX

Controls

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

C. Follow up of prior year recommendations

We identified the following issues in the audit of Preston City Council's 2021/22 financial statements. One was new recommendation, the other being a matter which continued to require further attention. We have followed up on the implementation of our recommendations and note 1 is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	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 Pension City Council in the period. This caused an error in 2021/22 which also required a prior period adjustment. We recommended that the Council engaged 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.	Council confirmed the engagement process is in place with both the actuary and the Lancashire Pension Fund. No issues of the same nature identified during the 2022/23 audit.
X	[Carried forward from 2020/21] Manual journals within the financial ledger are input by approved personnel, but they are not subject to authorization 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, We recommended that the Council reviewed the authorisation procedures in place over journal input	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

D. 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 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000
There was an unfunded defined liability of £5,796k that should have been recognised under IAS19 in the draft 2022-23 accounts. Previously this balance had been included within the overall pension fund liability amount. With the move to a pension asset position this amount should have been accounted for separately as a liability on the Authority's balance sheet.		Pension asset 5,796 Pension liability (5,796)		None
Pension asset incorrectly recognised in full prior to revised consideration of IFRIC14. The previously recognised pension asset of £44,354k has been increased by the recognition of the £5,796k unfunded defined benefit liability above	Remeasurement of net defined (benefit)/liability 50,150	Pension asset (50,150) Pension reserve 50,150	50,150	There will be no impact on the Council's useable reserves
Overall impact	£50,150	£0	£50,150	£0

D. 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.

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/issue/Omission	Details	Adjusted?
Accounting policies	Heritage asset accounting policy to be updated to document uplift applied in valuation	✓
Note 30 - Related Parties	Note to be amended to disclose related parties omitted in error.	✓

E. Fees and non-audit services

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non-audit services in relation to 2022/23.

Audit fees	Proposed fee
Scale fee	54,184
Enhanced VFM procedures	9,000
Increases audit requirements of revised ISA 540	2,100
Enhanced audit procedures on journals testing	3,000
Local risk factors	2,000
Additional payroll testing for changes in circumstances	500
Additional testing over Collection Fund reliefs	750
Additional risk assessment procedures and assessment of IT General Controls	3,000
Additional procedures to address financial reporting implications of recognition of a net pension asset	2,000
Fee per audit plan	**76,354**
Additional HB work	7,000
Quality and delays in receiving sufficient evidence in the areas of PPE, Investment property, ITARA, planning AR and HB reconciliation.	31,646
Audit of adjustments to reporting of defined benefit pension scheme position	2,000
Total audit fees (excluding VAT)	**£117,000**

E. Fees and non-audit services

The fees on page 33 do not reconcile to the financial statements. Therefore, we have provided a reconciliation below:

• **Fees per financial statements**	**101**
• HB fees not due to Grant Thornton	(30)
• New issues for 22/23 not included in accounts	5
• Additional HB work	7
• Proposed additional fee due to delays in obtaining sufficient appropriate audit evidence	32
• Audit of adjustments to reporting of defined benefit pension scheme position	2
• **Total fees per above**	**117**

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Audit letter in respect of delayed VFM work

Chair of Audit Committee

Preston City Council,

Town Hall,

Lancaster Road,

Preston,

PR1 2RL

28 September 2023

Dear Councillor Hart

The original expectation under the approach to Value for Money (VFM) arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our 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 can be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our 2022-23 Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our reports no later than 31 January 2024.

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

Cc Jackie Wilding, Director of Resources and Section 151 Officer

Grant Thornton

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