Grant Thornton

The Audit Findings Report for Preston City Council

Year ended 31 March 2020

15 December 2020

Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings to date 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 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. These included the administration of grants to businesses, leisure centres and car parks with additional challenges of reopening services under new government guidelines. For the finance team there was the difficulty of remote working and the capacity of the team due to redeployment to other services. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.	Our audit risk assessment considered the impact of the pandemic on our audit. We reported an financial statement risk in respect of Covid-19. Further detail is set out on page 6. Restrictions for non-essential travel has meant both Council and audit staff have had to work from home and had to use remote access financial systems, video calls, physical verification of completeness and accuracy of information produced. The draft statement of accounts were published on the Council's website on 13 August 2020.
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), 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 has been completed remotely between August and November 2020. Our findings are summarised on pages 5 to 18. We have identified one adjustment to the financial statements that resulted in a £nil adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (draft included in 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. Our audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting PPE and pension net liability valuation material uncertainties.

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 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Preston City Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore propose issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 19 to 23.
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 have completed our work under the Code and will certify the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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

Conclusion

We propose issuing an unqualified audit opinion, subject to:

- final quality assurance procedures;
- receipt of management representation letter; and
- review of the final signed set of financial statements.

Our approach to materiality

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

We updated our determination of materiality levels using figures from the draft 2019/20 financial statements. The benchmark and percentages used are the same as those used at the planning stage and reported to you in the audit plan.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,550,000	This equates to 1.96% of your forecast gross operating expenditure for the year and is considered to be the level above which users of the accounts would wish to be aware in the context of overall expenditure.
Performance materiality	1,085,000	Assessed to be 70% of financial statement materiality, to reflect the strong recent track record for producing accurate financial statements.
Trivial matters	77,500	This equates to 5% of materiality.
Materiality for senior officer remuneration	50,000	This is an area of special interest to users of the accounts, so we have used a lower materiality level for this disclosure.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided for audit on 12 August 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. Our audit work has not identified any issues in respect of the Covid-19 risk. We have drawn the attention of users of the statement of accounts to the inclusion of the disclosure of a material uncertainty regarding to the valuation of the Council's Land and Buildings and the value of the net pension liability by means of an emphasis of matter in our audit opinion as detailed in relation to our response to the significant risk of the valuation of land and buildings. See further details on these matters on pages 8 and 9.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
The revenue cycle includes fraudulent transactions: **Income from fees, charges and other service income** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. For Preston City Council, we have concluded that the greatest risk of material misstatement relates to fees, charges and other service income. This income is regarded as a material risk as it is comprised of numerous individual transactions from various sources that amount to a material amount. We have therefore identified the occurrence and accuracy of fees, charges and other service income as a significant risk, which was one of the most significant assessed risks of material misstatement. We have rebutted this presumed risk for the other revenue streams of the Council because: • other income streams are primarily derived from grants or formula based income from central government and tax payers; and/or • opportunities to manipulate revenue recognition are very limited.	There are no changes to our assessment reported in our audit plan. We have: • evaluated the Council's accounting policy for recognition of income from fees, charges and other service income for appropriateness; • gained an understanding of the Council's system for accounting for income from fees, charges and other service income and evaluate 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 is complete and we have not identified any issues in respect of the risk relating to fraudulent transactions included with income from fees, charges and other service income.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work is complete and we have identified a weakness in authorisation controls. See Appendix A for details of the control deficiency and our related recommendation.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of other land and buildings, surplus asses and investment properties The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£113 million) 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 or the fair value (for surplus assets not held for sale) at the financial statements date, where a rolling programme is used. We 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, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. The valuer reported their valuations on the basis of 'material valuations uncertainty' as a result of the Covid-19 pandemic. This was because market activity had been impacted in many sectors. As at the valuation date, they considered that they could attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The response to Covid-19 meant that they were faced with an unprecedented set of circumstances on which to base their judgement. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer in their valuation report, we will highlight the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts. The EOM paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements. Our audit work is complete. We have not identified any material issues in respect of the risk relating to the valuation of other land and buildings, surplus asses and investment properties. However, we have raised two recommendations in relation assets not being revalued in line with the rolling programme and the date at which valuations are carried out at. See Appendix A for details.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£88 million in the Council's balance sheet) 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. Lancashire County Pension Fund is reporting their valuations of direct and indirect property on the basis of 'material valuations uncertainty' as a result of the Covid-19 pandemic. This was because market activity had been impacted in many sectors. As at the valuation date, they considered that they could attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The response to Covid-19 meant that they were faced with an unprecedented set of circumstances on which to base their judgement. Consequently, the auditor of the pension fund is planning to include an Emphasis of Matter paragraph in their audit report drawing attention to the disclosure made in the pension fund statement of accounts. Given the Council's share of the pension fund's direct and indirect property valuations are material to the Council, and the caveat made by the valuer in their valuation report and Emphasis of Matter in the pension fund's audit report, we will highlight the material uncertainty to the Council in our audit report, in an Emphasis of Matter paragraph, drawing attention to the disclosure made in the Council's statement of accounts. The Emphasis of Matter paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the pension fund's accounts included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements. Our audit work has not identified any issues in respect of valuation of the net liability.

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation has been delayed by one year The public sector was due to implement this standard from 1 April 2020. However, this has been deferred for one year due to the Covid-19 pandemic. When it is implemented, it will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Council's 2019/20 financial statements, or if that impact is not known or reasonably estimable, a statement to that effect should be made.	In the draft accounts, Note 1.21 disclosed the title of the standard and the date of initial application. The nature of the changes in accounting policy for leases was not disclosed. The disclosure did not include an assessment of the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements.	In respect of IFRS 16, in Note 1.21, we would expect to see the title of the standard and the date of initial application, the nature of the changes in accounting policy for leases and, if known, an assessment on the of the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves. Management have agreed to include this disclosure. See Appendix C for the disclosure omission.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Other Land and Buildings: £46.652m **Surplus Assets: £1.957m** **Investment Properties: £40.556m**	Other land and buildings comprises £46.156m of non-specialised assets such as council offices, markets, parks and public conveniences, which are required to be valued at existing use in value (EUV) at year end. The remainder of other land and buildings (£0.496m) is the Guild Hall which is valued on a market value basis with special assumptions relating to the occupancy status due to ongoing legal dispute. The Council has engaged the council's internal valuers to complete the valuation of non-specialised properties as at 1 April 2019 on a five yearly cyclical basis, and external valuers, Roger Hannah, to complete the valuation of the Guild Hall. 10% of other land and building assets were revalued during 2019/20. Surplus assets comprises £1.957m of land and retail properties that are required to be valued at fair value. The Council has engaged internal valuers to complete the valuation of surplus assets. 95% of surplus assets were revalued during 2019/20. Investment properties comprises £40.446m 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 internal valuers to complete the valuation of non-specialised properties as at 1 April 2019. 100% of investment properties were revalued in 2019/20. In line with RICS guidance, the Council's internal and external valuers disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. Following challenge by the audit team, the Council has included disclosures on this issue in Note 4.	We have reviewed the estimate, considering: • an assessment of the internal and external valuers used as management's expert to be competent, capable and objective; • the 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 and requirements of the Code. • the consistency of the estimate against the Gerald Eve report, and reasonableness of the increase in the estimate: • agreement of the 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; • the sensitivities used by the valuer, completeness and consistency with our understanding; and • the adequacy of disclosure of estimate in the financial statements	GREEN

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Property valuations continued	Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 April 2019, by reviewing all assets with a value greater than £0.5m, including those not formally revalued at 1 April 2019, to determine whether there has been a material change in the total value of these properties. The valuation of other land and buildings properties valued by the valuer has resulted in a net increase of £0.445m. The total year end valuation of other land and buildings including this and other movements was £46.652m, a net increase of £0.335m from 2018/19 (£46.317m). The valuation of surplus assets valued by the valuer has resulted in a net decrease of £0.477m. The total year end valuation of surplus assets including this and other movements was £1.957m, a net decrease of £0.844m from 2018/19 (£2.801m). The valuation of investment properties valued by the valuer has resulted in a net increase of £1.087m. The total year end valuation of investment properties, including this and other movements was £40.556m, a net increase of £1.21m from 2018/19 (£39.346).		

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £78.064m	The Council's net pension liability at 31 March 2020 is £78.064m (PY £88.080m) comprising the Lancashire County Pension Fund Local Government Pension scheme. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The Council's actuary disclosed a material uncertainty in the valuation of the Council's pension fund liability at 31 March 2020 as a result of Covid-19. Following challenge by the audit team, the Council has included disclosures on this issue in Note 4. The latest full actuarial valuation was completed as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £15.74m net actuarial gain during 2019/20 (£3.848m in 2018/19).	We reviewed the detail of your assessment of the estimate, considering • an assessment of management's expert • an assessment of actuary's roll forward approach taken, detail work undertaken to confirm reasonableness of approach • the use of PwC as auditors expert to assess actuary and assumptions made by actuary (see assumptions table below) • the completeness and accuracy of the underlying information used to determine the estimate • the impact of any changes to valuation method • an assessment of the information received from pension fund auditor • the reasonableness of the Council's share of LPS pension assets. • the reasonableness of decrease in estimate • the Adequacy of disclosure of estimate in the financial statements	● GREEN

Assumption	Actuary Value	Within PwC range	Assessment
Discount rate	2.4%	Yes	●
Pension increase rate	2.2%	Yes	●
Salary growth	3.6%	Yes	●
Life expectancy (years) – Males currently aged 45 / 65	22.3 years / 23.8 years	Yes	●
Life expectancy – Females currently aged 45 / 65	25.0 years / 26.8 years	Yes	●

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for NNDR appeals - £6.185m	The Council are responsible for repaying a proportion of successful rateable value appeals. Management uses an external organisation, Analyse Local, to calculate the level of provision required. Analyse Local'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 increase in outstanding appeals, the provision has increased by £0.779m in 2019/20.	We assessed management's provision for NNDR appeals by considering: • the appropriateness of the underlying information used to determine the estimate • the impact of any changes to valuation method • the consistency of estimate against peers • the reasonableness of increase/decrease in estimate • the adequacy of disclosure of estimate in the financial statements	● GREEN

Assessment

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

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit

Significant matter	Commentary	Auditor view
Pension guarantees		
The note 34 (v) includes a contingent liability for Preston City Council acting as a pension guarantor for former employees of the council who were transferred to other organisations.	The disclosure states that Preston City Council has entered into agreements to act as guarantor in respect of the pension fund in perpetuity for former Council employees who transferred to other organisations for three organisations, and that this guarantee means that if an admitted body fails to pay its pensions obligations to the Local Pensions Partnership (LPP) then the Council will be responsible for meeting those obligations. It continues that since as at 31 March 2020 the Council understands that the pension contributions are being made in line with the actuaries' requirements so they do not need to be recognised on the balance sheet as the council's liabilities, so it is correct to disclose them as contingent liabilities.	Where there are contractual arrangements in place, they fall outside the scope of IAS 37 and therefore we would not expect to see a provision or contingent liability in the financial statements. In our view, where actuarial risk has transferred to the service company, such a guarantee would normally be accounted for by the local authority as either: • an insurance contract within the scope of IFRS 4 and measured under IAS 37 principles - where the contract transfers significant non-financial risk from the other entity to the local authority; or • a derivative financial liability under IFRS 9, accounted for at fair value through profit and loss - where the contract transfers significant financial risk to the local authority. Either option would bring the liability onto the balance sheet and result in a corresponding debit to the Comprehensive Income and Expenditure Statement and the General Fund balance. We therefore disagree with the Council's treatment of them as contingent liabilities. However, we have obtained assurance from management that the value of these is not material to the statement of accounts.

Significant findings – going concern

Our responsibility

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

Going concern commentary	Auditor commentary
Management's assessment process In order to assess their going concern basis management have: • Prepared a cash flow forecast to the end of December 2021 • Considered events or conditions that may impact their going concern assumption • Considered the impact of Covid-19 Management concluded it is appropriate to prepare their accounts on going concern basis and that no material uncertainty exists.	• The Council's use of the going concern basis of accounting is appropriate • The Council's has provided us with its assumptions and supporting working paper for its assessment of going concern. • The disclosure of the going concern basis within the draft financial statements was concise.
Work performed We discussed the financial standing of the Council and the impact of Covid-19 with the s151 officer. We reviewed management's assessment of going concern and the assumptions and supporting information.	• No material uncertainty identified. • We reviewed the assumptions used by management in the forecasting their cash position to the end of December 2021. We considered they had used reasonable assumptions, and that the forecasting process and underlying data used were reliable. • We considered the reliability of the forecasting process and the underlying data
Concluding comments The Council's use of going concern basis of accounting is appropriate.	• Our opinion is unmodified in respect of the going concern conclusion. • The impact of Covid-19 is not considered material to the assessment of going concern.

Other matters for communication

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	Auditor 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. We have highlighted in Appendix C that we have identified some related party transactions that do not meet the definition of IAS 24, and so there is an over disclosure, potentially distracting the reader from key disclosures.
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. Specific representations have been requested from management in respect of the material valuation uncertainties relating to PPE and net pension liability.
Confirmation requests from third parties	We requested from management permission to send confirmation request to banks and other investment and borrowing counterparties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Disclosures	We found a number of areas where disclosures could be improved. See Appendix C for details of disclosure change.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided. The financial statements were received on 12 August 2020, and published in advance of the statutory deadline. The financial statements were prepared to a good standard with embedded quality review processes in place. Working papers were available at the start of the audit and were detailed, and clear to understand. The responses to our audit samples and queries has been slowed by the Council's focus on responding to Covid-19.

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 plan to issue an unmodified opinion in this respect – refer to Appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties 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. This work is not required as the Council does not exceed the threshold of £500m.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Preston City Council in the audit report, as detailed in Appendix E.

Value for Money

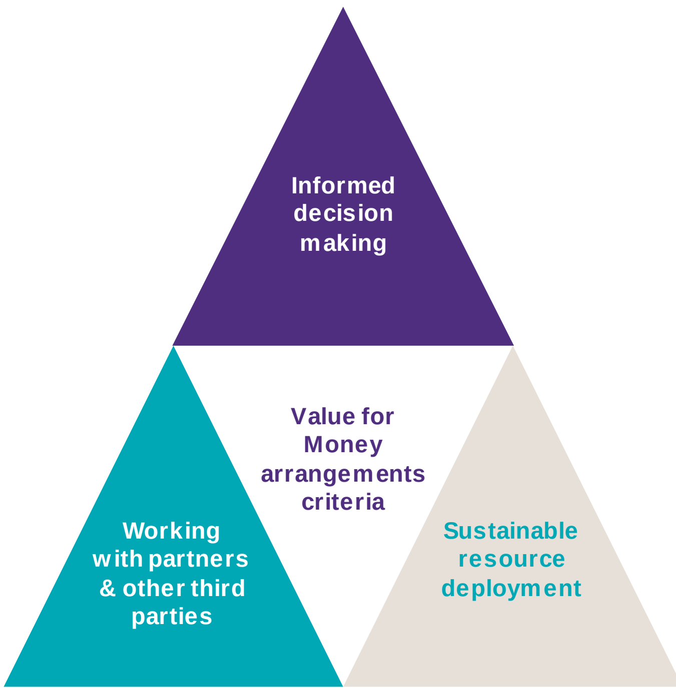
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in March 2020 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 18 May 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We have not identified any new VfM risks in relation to Covid-19, as we do not consider Covid-19 to be a significant risk given the pandemic impacted so late in the financial year.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

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

- the Council's 2019/20 outturn
- the robustness of the Council's 2020/21 budgetary assumptions and Medium Term Financial Strategy, including savings and income proposals;
- the level and stability of the Council's usable reserves;
- the arrangements the Council has in place for the funding of its City Deal, regeneration projects and Town Centre redevelopment.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 21 to 23.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Recommendations for improvement

We did not identify any recommendations for improvement to pass onto management in relation to the work carried out on the significant VFM risks.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings

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

Significant risk as reported in the Audit Plan

Financial sustainability and going concern

Financial stability is based upon the MTFP and achievement of savings. By the end of the five year forecast the Council will need to identify ongoing savings of £0.5m in 2022/23 rising to £1m in 2023/24 onwards. At the 2019/20 mid-year review of the General Fund Forecast in October 2019, around £1.5m of slippage resulting from 2018/19 slippage and in-year budget decisions have been added to the budget resulting in a further call on reserves to deliver a balanced budget. By the February 2020 budget, this savings requirement was no longer shown.

We will review the Council's arrangements for the budgeting and monitoring of the ongoing financial position to assess whether the basis for assumptions and ongoing forecasts are realistic and appropriately managed, particularly in light of the impact of Covid-19 on finance and staffing.

Findings

In 2019/20 the Council underspent against budget by £1,398k before slippages are taken into the 2020/21 budget period. This was due to underspends against the directorate cash limits. This is an improved position since the 2019/20 mid-year review was published in October 2019 which reflects in year recoveries being identified and delivered.

The Medium Term Financial Strategy (MTFS) was updated alongside completing the budget for 2020/21. It covers the period up to2023/24. The MTFS sets out the five year Revenue Strategy, the Capital Strategy including the five year Capital Programme, Treasury Strategy and identifies the key financial risks for the Council. In October 2019, CIPFA published its Financial Management Code (FM code), which has been introduced to help assist local authorities to embed statutory responsibilities for sound financial administration. From 2021/21, local authorities are required to apply all the of the FM Code. In updating their MTFS alongside the 2020/21 budget, the Council carried out an assessment against the financial management standards within the code and already has the majority of the requirements in place and is working towards implementing the remaining requirements.

Since 2010, the Council achieved ongoing savings of more than £10m. The latest Four Year Efficiency Plan ended in 2019/20. Savings had initially been planned for 2020/21, but due to the better than expected impact of the LGPS IAS 19 triennial valuation as at 31 March 2019, by the time the final budget was agreed in February, these were no longer deemed necessary.

It has not been formally extended to cover 2020/21 but there are some areas with planned savings such as the Investment Property Action Plan and the Digital Strategy. There are no other new significant recurrent savings planned in the MTFS. However, the Council does maintain a list of contingency savings made up of non-statutory services totalling £1,300k that can be called upon if a significant risk materialises. Identifying such savings ahead of potential need to implement them is good practice.

The Council's Reserve Policy was updated and presented to the Cabinet in October 2019. The minimum level of General Fund reserves was set at £1.1m. As at 31st March 2020, the General Fund balance was £8,823k which is well in excess of the minimum and represents a prudent position given the uncertainty of future levels of funding.

However, over the life of the MTFS, the Council is forecast to call on reserves up to £5,966k. This would leave a General Fund balance of £3,124k. Whilst this remains above the minimum reserve level, the regular use of reserves to fund Council services is not sustainable in the longer term, and further efficiency savings should be identified to reduce the rate of the depletion of General Fund reserves.

Value for Money

Key findings

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

Financial sustainability and going concern (continued)

The main assumptions in the general fund revenue forecast are

- 1.99% Council tax increase – this is below the maximum of 2% without holding a local referendum
- 3% pay award in 2020/21 (2% in 2021/22) – this is in line with the estimate in the MTFS
- Employer pension contributions of 18.4% plus £500k lump sum in 2020/21 – this is in line with the latest triennial valuation as at 31 March 2019
- No change to Employer National Insurance Contributions – no changes to this rate have been announced by the government
- £150k vacancy savings per year – the Council has demonstrated an ability to deliver savings of this magnitude
- New Homes Bonus of £3.8m over the next three years – this is in line with anticipated housing completion City Deal expectations. The scheme beyond 2020/21 is still under discussion so there is uncertainty over the longer term.

Overall, the main assumptions in the general fund forecast are realistic and reasonable.

As in previous years, the Budget Working Group (BWG), consisting of the Leader, Cabinet members, three backbenchers and the Corporate Management Team have led the 2020/21 budget planning process. The BWG met regularly throughout the budget setting period from October 2019 to February 2020. The budget process involves consultations with key partners and stakeholders, Business Rate payers and Trade Union representatives. There were no significant changes in the approach for the 2020/21 budget and this seems appropriate as it appears there are good arrangements in place.

There remain many uncertainties for the Council affecting funding in the medium term. Some of these are external macro-economic factors such as the impacts Brexit and Covid-19 on the wider national and local economy, and the outcome of the delayed Fair Funding Review. Other factors, such as new Council Tax income and New Homes Bonus from the construction of additional new houses, and the cost of operating the Guildhall in the short term.

Conclusion

There were adequate arrangements in place during 2019/20 over budgeting and monitoring of the Council's ongoing financial position.

We propose an unqualified Value for Money Conclusion for 2019/20.

Value for Money

Significant risk as reported in the Audit Plan

City centre redevelopment

The Council may be exposed to significant financial risks from its City Deal / Regeneration projects and Town Centre redevelopment.

We will review the Council's arrangements for informed decision making, including in relation to the funding of its City Deal / Regeneration projects and Town Centre redevelopment.

Findings

- The Council has continued to invest in the redevelopment of the city centre through a number of linked projects underpinned by an overall strategic vision of the City Centre Plan adopted by the Council in 2016.
- The largest of these projects are the Harris Quarter and cinema complex at the Markets Square which are supported by the improved infrastructure planned to be provided by The Preston and Lancashire City Deal.
- In line with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code, the Council is required to ensure that all major capital investment plans are affordable, prudent and sustainable.
- The Council reviews all key financial assumptions on an on-going basis and identifies whether there are any material changes which need to be incorporated. These may include changes in the assumptions made, either as a direct results of changes in external factors, economic climate, legislation or decisions made locally.
- The Council has obtained relevant advice from external legal, commercial, project management and property advisors on the main projects to identify and minimise the impact of risks.
- The Council are presented regular updates on the main projects to assist in making well informed decisions on the projects.
- Covid-19 and the subsequent nationwide lockdown struck in late March 2020. The Council had not made any significant changes to the main projects by the end of the 2019/20 financial year.

Conclusion

There were adequate arrangements in place during 2019/20 over budgeting and monitoring of the Council's ongoing financial position.

We propose an unqualified Value for Money Conclusion for 2019/20.

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 and network firms). 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 Deputy Mayor of Preston City Council. 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 has 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 have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in 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.

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.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim 2018/19	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £16,500 in comparison to the total fee for the audit of £54,183 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.
Certification of Housing Benefit Claim 2019/20	16,500	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.

Action plan

We have identified 3 recommendations for the Council as a result of matters identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 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	**Journal self-approval** • Manual journals within the financial ledger are input by approved personnel, but they are not subject to authorisation controls at the time of input. • The risk is that the lack of authorisation controls at the time of input creates a higher level of risk of error or manipulation.	Review the authorisation procedures in place over journal input. **Management response** Due to the size of the team, it is reasonable for members of the finance team to be able to authorise their own journals. Due to regular balance sheet reconciliations and budget monitoring we are content any erroneous journals would be detected.
Medium	**Assets not revalued in line with rolling programme** • We identified two properties that had not been subject to a formal valuation for more than five years. This is a breach of the requirements of the CIPFA Code which requires valuations of whole classes of assets to be carried out at intervals of no more than five years.	Review the programme of cyclical valuation to ensure all assets are caught up and brought in line with the five-year valuation cycle required by the Code. **Management response** We have formally set aside funds for the implementation of a Civica asset management module. The first stage of purchasing the module is complete and the 2nd stage of implementation has been slightly delayed due to Covid but plans are currently being rescheduled. The asset management module will assist in mitigating the risk of this happening in the future.
Medium	**Date of valuations** • Most Other Land and Building, Surplus and Investment Property assets are valued as at 1st April each year or part of the five-year cycle. Whilst permissible by the CIPFA Code, since the reporting date is the 31st March, a year later there is a risk that the value of these assets is significantly different at the reporting date.	Consider having Other Land and Building, Surplus and Investment Property assets valued as at 31st March each year and part of the five-year cycle. **Management response** We will consult with the Council's Property Services team on the practicalities of implementing this change with a view to having this put into practice for 2020/21 accounts.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

In April 2019 we published our Decision and Statement of Reasons relating to an objection to the audit of the accounts 2017/18 which resulted in one recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	We recommend that the Council revisits the purpose for which it holds the Community Related Assets reserve and the circumstances in which the reserve may be used, taking account of the guidance contained in CIPFA LAAP Bulletin 99 'Local Authority Reserves and Balances'.	The description of the purpose of the reserve has been amended to reflect that the reserve is for future expenditure in relation to the community related assets which transferred only. Any reference to any other use has been removed. There has been no call on the reserve during 2019/20. The maintenance costs have been borne by the GF revenue budget in 2019/20.

Assessment

✓ Action completed

X Not yet addressed

Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
REFCUS			
Cost of Services Gross Income	501	-	-
Taxation & Grant Income	(501)		
This adjustment also impacts the Movement in Reserves Statement, Note 8 – Taxation & Non-Specific Grant Income, Note 9 - Adjustments between Accounting Basis and Funding Basis under Regulations, Note 10 – Grant Income, Note 21c – Capital Adjustment Account, and Note 26 - Expenditure Funding Analysis.			
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 change	Detail	Auditor recommendations	Adjusted?
Note 31 – External Audit Costs	In the draft accounts, Note 31 included all the fees for external audit, including the financial statements audit at the 2019/20 scale fee, and some for 2018/19, and the grant certification work at agreed fees as one figure and did not include an agreed additional fee for the financial statements audit.	The disclosure would be clearer if the financial statements audit and grant certification fees were shown separately, and it was clear how much related to the current year and how much to previous years.	✓
Financial instruments	In note 13 a) of the draft statement of accounts, Money Market Funds were classified as at fair value through other comprehensive income. They are more likely to be classified as at fair value through profit and loss.	Update the note to correctly classify Money Market Funds as at fair value through profit and loss.	✓

Audit adjustments

Misclassification and disclosure changes (continued)

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 change	Detail	Auditor recommendations	Adjusted?
Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty - Material valuation uncertainty – Pension liability	Disclosure should be made of the material valuation uncertainty of the Council's share of the Lancashire County Pension Fund's property investments as this information was not available at the time the Council's draft accounts were published.	Disclosure should be made of the uncertainty relating to the Council's share of the Lancashire County Pension Fund's property investments.	✓
Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty - Material valuation uncertainty – Property, Plant and Equipment	Disclosure should be made of the material valuation uncertainty of the Council's PPE and Investment Property assets as at the balance sheet date to reflect the impact of Covid-19.	Disclosure should be made of the uncertainty relating to the Council's PPE and Investment Property assets	✓
Critical Judgements in Applying Accounting Policies	This note should not be used for judgements relating to estimates, which are covered by the Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty note. In the draft statement of accounts, the valuation of fixed assets was included in this note despite being an estimate.	Disclose the material valuation uncertainty of land and building as at 31 March 2020 in the Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty note.	✓
Note 2 - Accounting Standards issued but not yet adopted – IFRS 16	A disclosure, in line with the requirements of IAS 8, about IFRS 16 was not included in the draft statement of accounts.	Add a disclosure that meets the requirement of IAS 8 that includes the title of the standard and the date of initial application, the nature of the changes in accounting policy for leases and, if known, an assessment on the of the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves.	✓
Grant Income	In the draft statement of accounts, we identified that grant expenditure had been netted off against income in the grant income note (note 10). This note should show only income.	Review the note and update where required.	✓

Audit adjustments

Misclassification and disclosure changes (continued)

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 change	Detail	Auditor recommendations	Adjusted?
Pooled Investment Funds Adjustment Account	It would aid users of the accounts understanding if this note made clear the statutory override mitigate the impact of fair value movements on pooled investment funds was time limited.	Add a disclosure that the statutory override mitigate the impact of fair value movements on pooled investment funds is time limited.	✓
Accounting policy – Revenue Expenditure Funded by Capital Under Statute (REFCUS)	The CIPFA Code and Capital Guidance is not clear as to whether grant income used for REFCUS should be charged to the service that qualifying income is charged to or should be charged to Taxation and Non-Specific Grant Income on the Comprehensive Income and Expenditure Statement (CIES).	Management should update their accounting policy to clarify their approach to where grant income used for REFUCS is charged to on the CIES.	✓
Related Party Transactions	Related party transactions reported in the include some that do not appear to meet the definition of IAS 24.	Management should review their disclosed related parties as to whether they meet the definition of IAS 24. **Management response** As this is an over disclosure rather than a disclosure omission, we are content the disclosure does not distract users of the accounts from the salient points. We will carry out a full review of the disclosure for the 2020/21 statements of accounts.	X
PPE note	One asset, classified as part of Other Land and Buildings (OLB) is valued on a fair value basis. The accounting policies state Land and buildings and other operational assets are valued at current value determined as the amount that would be paid for the asset in its existing use existing use value – EUVs. Where sufficient market evidence is not available, this is estimated at depreciated replacement cost.	The asset should be valued on the existing use value basis. **Management response** The asset is not material in value and it's fair value valuation represents its highest and best use, which will always be greater than the existing use value basis.	X
Investment Property	In the draft accounts, Investment properties were classified as Level 1 on the Fair Value Hierarchy which was suggest they are quoted in active markets. This is unlikely to be a true reflection of the nature of the assets.	Reassess the classification and update the table accordingly. Management decide that all Investment Property were Level 2 on the Fair Value Hierarchy.	✓

Audit adjustments

Impact of unadjusted misstatements

There are no reportable unadjusted misstatements identified as part of the 2019/20 audit.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
REFCUS				Not material to the financial statements in 2019/20 and only a misclassification issue so no impact on bottom line or balance sheet.
Cost of Services Gross Income	914	-	-	
Taxation & Grant Income	(914)			
Overall impact	**nil**	**nil**	**nil**	

Fees

We set out below our fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	54,183	TBC*
Total audit fees (excluding VAT)	**£54,183**	**£TBC**

*Covid-19 has impacted on the audit of your financial statements in several ways. These impacts include:

1. Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has driven additional areas of audit work
2. Management's assumptions and estimates - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions.
3. Financial resilience assessment – we are required to consider the financial resilience of audited bodies. I know from our discussions over the last few months that Covid-19 has had a an impact on the Council's medium term finances. This has increased the amount of work that we need to undertake on going concern and value for money (financial sustainability).
4. Remote working – the most significant impact in terms of delivery is the move to remote working (both our teams and yours). We, as other auditors, are experiencing considerable delays as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of relevant staff (due to shielding, being diverted to other essential functions, or other additional Covid related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming. The Government's current expectation to work from home as the default position is now likely to make this a greater issue for the audit than if we had been able to gradually return to our offices and Council premises over the autumn of this year, as originally anticipated.

We have been discussing the impact Covid-19 has been having on audits with PSAA over the last few months and note that these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

To date, we estimate that the issues highlighted above are increasing the time taken on audits by an average of 25%, in some cases higher. We understand from discussions with the ICAEW that this is similar to other firms.

We have sought to mitigate this as far as possible through reduced travel time and travel costs and will be looking how we can absorb some of the remaining overrun ourselves. However, it is unlikely that this will not be sufficient to cover the full additional cost. We are aware that the Council's finances are constrained and we will seek to minimise these costs as best we can and will also consider our own performance in delivering to the November deadline. We will discuss any variations to the planned audit fee with the City Treasurer before reporting to the Audit Committee at its next meeting.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services – Housing Benefit Certification	£16,500	£TBC
Total non- audit fees (excluding VAT)	**£16,500**	**£TBC**

Audit opinion

We anticipate we will provide the Council with an unqualified audit report including an Emphasis of Matter paragraph

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Preston City Council (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 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 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the City Treasurer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the City Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the City Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the City Treasurer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings, and the authority's share of the local government pension scheme's property investments

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings and the Authority's share of the pension fund's direct and indirect property investments as at 31 March 2020. As, disclosed in note 4 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's property valuation reports. Our opinion is not modified in respect of this matter.

Other information

The City Treasurer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, 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 of the Authority 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 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 matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement 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:

Audit opinion

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

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

Responsibilities of the Authority, the City Treasurer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 21, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the City Treasurer. The City Treasurer 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the City Treasurer 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 City Treasurer 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.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Preston City Council 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]

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