

The Audit Findings for Preston City Council

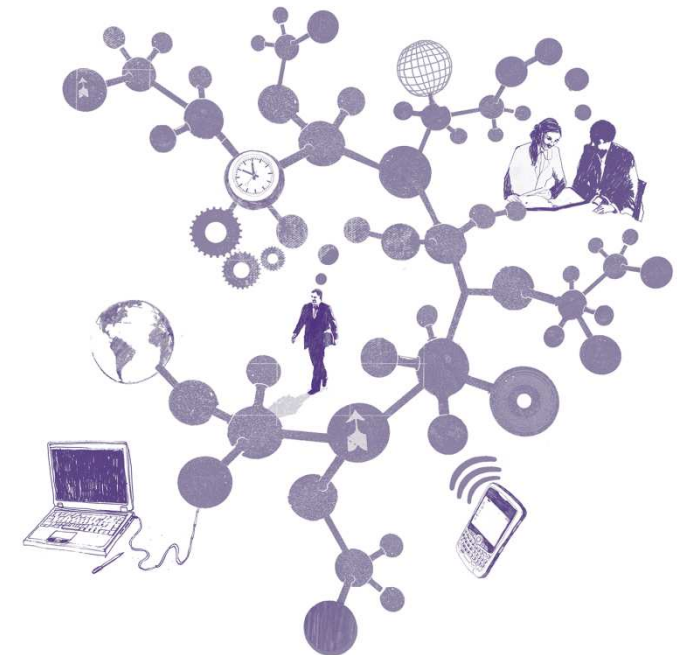
Year ended 31 March 2017

September 2017

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September 2017

Dear Members of the Audit Committee

Audit Findings for Preston City Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Preston City Council, the Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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.

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 primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

Karen Murray

Engagement Lead

Chartered Accountants

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Contents

Section	Page
1. Executive summary	4
2. Audit findings	8
3. Value for Money	23
4. Other statutory powers and duties	29
5. Fees, non-audit services and independence	31
6. Communication of audit matters	33
Appendix	
A Audit opinion	36

Section 1: Executive summary

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Other statutory powers and duties
- 05. Fees, non-audit services and independence
- 06. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Preston City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated April 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- completion of cut-off testing and clearance of outstanding queries
- receipt of pension fund information in relation to pension guarantees
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation, and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any issues affecting the Council's reported financial position. The draft financial statements for the year ended 31 March 2017 recorded total comprehensive income and expenditure of £7.689m and an increase in the general fund balance of £0.462m. There have been no amendments to the accounts which affect these figures.

The key messages arising from our audit of the Council's financial statements are:

- We anticipate providing an unqualified audit opinion in respect of the financial statements (see Appendix A).
- The draft accounts were provided later than anticipated but in advance of the statutory deadline of 30 June 2017.
- The draft accounts were of a good standard and demonstrated careful management review
- We identified an error in the disclosure of financial instruments relating to creditor balances. Management has agreed to amend the disclosure note.

Further details are set out in section two of this report.

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA / SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Audit Committee which is due in February 2018.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed and agreed with the City Treasurer.

Acknowledgement

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

Grant Thornton UK LLP
September 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1.744m (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £87,000. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000
Related Party Transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000 – individual misstatements will also be evaluated with reference to how material they are to the other party.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Preston City Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Preston City Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Reviewed the accounting estimates, judgements and decisions made by management • Reviewed the journal entry process and selected unusual journal entries for testing back to supporting documentation • Reviewed unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>We have:</p> <ul style="list-style-type: none"> identified the controls put in place by management to ensure the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.</p> <p>We are satisfied that the entries and disclosures in the Council's accounts for pension fund assets, liability and disclosures in notes are consistent with the actuarial report provided by Mercers.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of property, plant and equipment and investment property</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p>	<p>We have:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate • reviewed the competence, expertise and objectivity of any management experts used • reviewed the instructions issued to valuation experts and the scope of their work • Discussed with the Council's valuer the basis on which the valuation was carried out, challenging the key assumptions • reviewed and challenged of the information used by the valuer to ensure it was robust and consistent with our understanding • tested revaluations made during the year to ensure they were 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 satisfied themselves that these were not materially different to current value. 	<p>Our audit work confirmed that revaluations were carried out by an appropriate external expert.</p> <p>Other audit work is ongoing to gain further assurance that the value of land and buildings not revalued during the year was materially accurately stated at 31 March 2017.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding tested the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces analysed trends and relationships to identify any anomalous areas for further investigation tested the completeness of payroll transactions and appropriate cut-off. 	Our audit work has not identified any issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding reviewed accounting estimates, judgments and the accruals accounting process tested payments made after the year-end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts. 	Our audit work in this area is nearing completion and to date has not identified any issues in relation to the risk identified.



"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>Our audit work in this area is ongoing and to date has not identified any issues in relation to the risk identified.</p>

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue from the provision of services is recognised when the percentage completion of the transaction can be reliably measured and that it is probable that economic benefits or service potential associated with the transaction will flow. Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due when there is reasonable assurance of compliance with the conditions attached to the payments and the grants or contributions will be received. Amounts recognised as due are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Acting as an agent for council tax and NDR on behalf of the major preceptors. Accounting for the Council share of these balances. 	Our review of the Council's accounting policies has not highlighted any issues which we wish to bring to your attention. Policies are in accordance with the requirements of the CIPFA Code of Practice.	 GREEN
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> useful life of capital equipment provisions (including bad debt provision) pension liability fair value measurement of investment properties embedded leases Investment properties 	<p>We have considered the Council's judgements and estimates against the requirements of the CIPFA Code of Practice.</p> <p>Our testing has not resulted in any matters arising</p>	 GREEN



Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The City Treasurer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason the Council continues to adopt the going concern basis in preparing its financial statements.	We have reviewed the Council's assessment and are satisfied that the going concern basis is appropriate for the 2016/17 financial statements.	 GREEN
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	We are reviewing management's accounting treatment of the pension guarantees in contingent liabilities note 34.	 AMBER

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

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
1.	Matters in relation to fraud	<ul style="list-style-type: none"> 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. No other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations. We have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> Our work in this area is ongoing to check the external confirmations received.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.

Other communication requirements continued

	Issue	Commentary
7.	Matters on which we report by exception	<p>We are required to report by exception in the following areas if we identify any issues:</p> <ul style="list-style-type: none"> • 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 information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group / Council acquired in the course of performing our audit, or otherwise misleading. <p>We have no issues to report.</p>
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note, however, that this work is not required as the Council does not exceed the threshold.</p>

Internal controls

We have no matters to report to the Audit Committee in relation to the operating effectiveness of controls.

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.

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Adjusted misstatements

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

There have been no amendments to the draft accounts arising from the audit process

Unadjusted misstatements

No unadjusted errors were identified during the audit process.

Misclassifications 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	707	Financial Liabilities	Creditors disclosed in the financial liabilities note relate to NDR balances and these are not financial instruments. Management have agreed to amend the disclosure for the current year (£0.707m) and the previous year (£0.926m).

Section 3: Value for Money

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money**
- 04. Other statutory powers and duties
- 05. Fees, non-audit services and independence
- 06. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place 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. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. 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.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in April 2017 and identified two significant risks using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan presented at the 26 April 2017 Audit Committee meeting.

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

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

Significant qualitative aspects

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 robustness of the Medium Term Financial Strategy (MTFS) and the reasonableness of the underlying assumptions;
- the progress made to deliver the regeneration of the city centre

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 later in this section.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

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

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	Work to address	Findings and conclusions
<p>Financial Sustainability</p> <p>The Council has historically managed its finances well and has consistently achieved savings targets. However, the financial position over the medium term means the Council faces significant challenges to ensure that the General Fund balance does not fall below the City Treasurer's recommended level of £1.1m. Reviewing and updating the medium term financial plan has meant critically appraising the assumptions made around future income and expenditure levels. The Council will need to make some difficult decisions about the provision of services and how currently unidentified savings of £1.9m in 2019/20 and 2020/21 will be achieved. This may include changes to the scope and scale of services and the delivery models used.</p>	<p>We have discussed key strategic challenges and the Council's proposed response and considered reports to members to:</p> <ul style="list-style-type: none"> • review the outturn position for 2016/17 and the updated budget plans for the 5 year period to 2020/21 • review the Council's progress in updating its medium term financial strategy and identifying how future savings will be achieved 	<p>The Council faces financial challenges but the four year Medium Term Financial Strategy (MTFS) 2017/18 to 2020/21 demonstrates its long term financial viability. Key planning assumptions cover internal and external factors such as, government funding, pay inflation, non-pay inflation and council tax increases and these assumptions appear reasonable. Overall, there is a sound process in place to produce the MTFS and update projections.</p> <p>In the year to 31 March 2017, the Council delivered an underspend of £0.821m resulting from expenditure slippage into 2017/18 and increased income. When the 2017/18 budget was agreed the general fund balance was estimated as £7.328 million but the underspend means that the general fund balance has increased to £8.149m. However, the expenditure slippage from 2016/17 will be the first call on revenue reserves in 2017/18 and will immediately reduce the general fund balance to £7.582m.</p> <p>The Council set the 2017/18 budget and council tax requirement on 23 February 2017. This resulted in a balanced net revenue budget for 2017/18 of £20.755 million and a council tax increase of 1.99%. The budget requires savings options of £1.190m and the use of £2.081m of general fund balance.</p> <p>The City Treasurer has provided an assessment of the adequacy of balances and has identified that the minimum level of general fund balance is £1.1m. The proposals for the period 2017/18 and 2018/19 confirm that achieving planned savings of £2.642m and using a further £5.047m of general fund balances will result in a balanced outturn. However, the MTFS projections show funding gaps in 2019/20 and 2020/21 despite additional savings of £3.908m and further use of general fund balances of £3.121m. At that stage, general fund balances will have reduced to the minimum level of £1.1m but there will still be funding gaps in 2019/20 (£0.532m) and 2020/21 (£1.408m).</p> <p>The Council has made good progress in identifying and delivering savings in recent years, including through alternative service delivery options (such as leisure services), income generation and the disposal of surplus assets. This has allowed the Council to continue to maintain the delivery of both statutory and choice services for the people of Preston. Options for further savings for the period to 2019/20 are identified in the Council's efficiency plan with an expectation that the need for savings will continue beyond this period. The efficiency plan has identified savings through reductions in management costs and rightsizing of the support services which, whilst achievable, will impact on the Council's capacity to deliver services and respond to information requests going forward. Some of the proposals are very ambitious and will need monitoring closely to ensure the efficiency plan remains on track. To mitigate the risk of failing to deliver savings the Council also has a contingency list of additional savings, totalling £1.3m, that could be called upon.</p> <p>Our overall view is that the Council has robust arrangements to monitor and update its financial plans including the delivery of the required savings.</p> <p>The Council has recognised the need to keep its budget monitoring under review to ensure the accuracy of projections</p> <p>Based on this we conclude that that the Council has in place proper arrangements for ensuring it plans finances effectively to support the sustainable delivery of strategic priorities and uses appropriate information to support its decision making.</p>

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
<p>The Council has ambitious plans to support the regeneration of the city centre and these may require a significant investment by the Council.</p> <p>Although the successful delivery of these schemes offers opportunities for the Council there are also significant risks, particularly to ensure that the Council does not put unmanageable pressure on its own financial position.</p>	<p>Discussions with key officers and review of reports to consider:</p> <ul style="list-style-type: none"> • progress made to drive forward development • how the Council is addressing the risks and challenges associated with this, in particular • the level of financial assistance that the Council may be required to provide to deliver the schemes • the governance arrangements to ensure that risks are managed appropriately. 	<p>The Council is continuing to develop and bring forward a range of schemes within an overall plan to support the regeneration of the city centre.</p> <p>The various schemes are supported by an ambitious capital programme which ensures all capital spend is directly linked to the Council’s key priorities and in line with the Council’s Core Major Asset Plan. The impact of the capital programme, and the supporting finance sources, is reported to members alongside the MTFs. Key schemes underway include, for example, the building of a new market hall under the newly renovated Edwardian canopy.</p> <p>Nevertheless, the Council recognises that it needs to work in partnership with others to deliver its ambitious plans around City Centre regeneration. It is working in partnership with Lancashire County Council (LCC) and South Ribble Borough Council to deliver the City Deal and generate employment, commercial investment and new homes.</p> <p>Further examples include the proposed sale of the former Post Office for development as a boutique hotel and ongoing discussions with developers and LCC regarding a new cinema and restaurant development. In bringing forward these plans, we are satisfied that officers are carefully considering the financial implications of this major new development for the Council. Officers are clearly aware of the risks and are seeking to find ways of mitigating the financial risks.</p> <p>Other major schemes, such as re-imagining the Harris by redeveloping the building, rely largely on the receipt of Heritage Lottery Funding such that the Council’s exposure to financial risk will be minimised.</p> <p>We are satisfied that the Council has appropriate arrangements to manage the risks associated with its City Centre regeneration ambitions.</p> <p>Officers recognise the financial risks associated with the plans and have appropriate governance arrangements to minimise the Council’s exposure to risk.</p>

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.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Other statutory powers and duties

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Other statutory powers and duties**
- 05. Fees, non-audit services and independence
- 06. Communication of audit matters

Other statutory powers and duties

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

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none"> We have not identified any matters that would require a public interest report to be issued.
2.	Written recommendations	<ul style="list-style-type: none"> We have not made any written recommendations that the Council is required to respond to publicly.
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none"> We confirm we have not used this duty.
4.	Issue of an advisory notice	<ul style="list-style-type: none"> We confirm we have not used this duty.
5.	Application for judicial review	<ul style="list-style-type: none"> We confirm we have not used this duty.

Section 5: Fees, non-audit services and independence

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Other statutory powers and duties
- 05. Fees, non-audit services and independence**
- 06. Communication of audit matters

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Proposed fee £	Final fee £
Council audit	60,627	60,627
Grant certification	10,613	10,613*
Total audit fees (excluding VAT)	71,240	71,240

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

* The fee included is currently an estimate, as we have still to undertake this work.

Independence and ethics

Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:

- we confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements;
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 6: Communication of audit matters

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Other statutory powers and duties
- 05. Fees, non-audit services and independence
- 06. Communication of audit matters**

Communication to those charged with governance

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

This document, The Audit Findings, outlines those key issues 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

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our 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	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
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	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
Matters in relation to the group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud.	✓	✓

Appendix

A. Audit Opinion

A: Audit opinion

We anticipate we will provide the Group with an unmodified audit report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRESTON CITY COUNCIL

We have audited the financial statements of Preston City Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and the related notes. 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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.

Respective responsibilities of the City Treasurer and auditor

As explained more fully in the Statement of Responsibilities, 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the City Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of the Authority's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**Respective responsibilities of the Authority and auditor**

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.

We are required under Section 20(1)(c) of the Act 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.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether 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 criteria 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 2017.

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 form a view on whether in all significant respects the Authority has put in place proper 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 criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

[To be signed]

Karen Murray
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Spinningfields
Manchester
M3 3EB

[To be dated]



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