

The Annual Audit Letter for Preston City Council

Year ended 31 March 2017

October 2017

Karen Murray

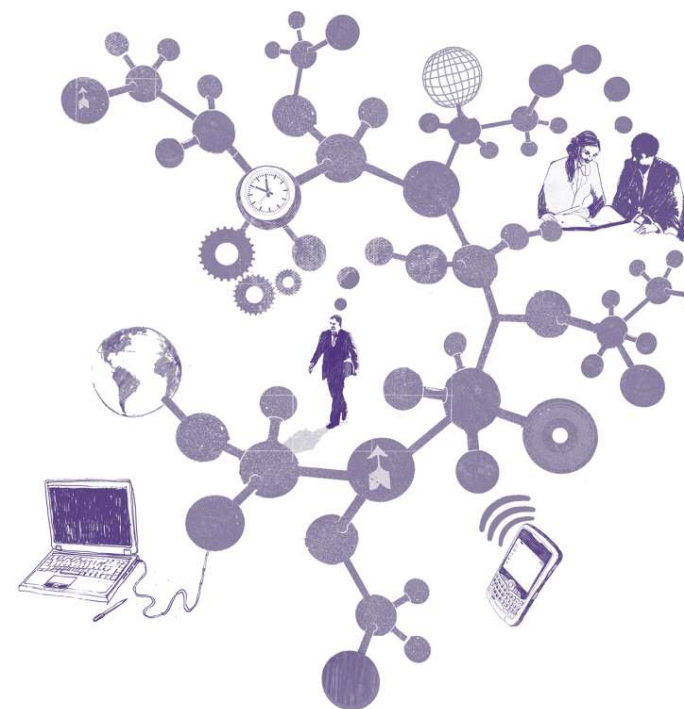
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Preston City Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee (as those charged with governance) in our Audit Findings Report on 20 September 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 20 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 20 September 2017.

Certificate

We certified that we had completed the audit of the accounts of Preston City Council in accordance with the requirements of the Code on 20 September 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1.744 million, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set lower levels of specific materiality for senior officer remuneration and related party transactions.

We set a lower threshold of £87,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the City Treasurer are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts – Preston City Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Employee remuneration is the most significant element of revenue expenditure. Inherent risk is medium: there are large monetary amounts; high volume transactions & detailed controls put in place by management. As such there is a reasonably possible risk that payroll expenditure will be understated within the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertook a walkthrough of the key controls to assess 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. 	<p>Our audit work has not identified any issues in relation to the risk identified</p>
<p>Although controls within the operating expenses cycle are deemed robust and subject to internal audit, year-end 'manipulation' risks exist around payables/accruals due to pressure to meet budget targets. There are also large monetary amounts; high volume transactions & detailed controls put in place by management. There is therefore a reasonably possible risk that the creditors balance could be misstated.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertook a 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. 	<p>Our audit work has not identified any issues in relation to the risk identified</p>

Audit of the accounts – Preston City Council (cont.)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<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>As part of our audit work we:</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, liabilities and disclosures in notes are consistent with the actuarial report provided by Mercers.</p>
<p>Valuation of property plant and equipment</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 the current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we:</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>We have obtained sufficient assurance that the value of land and buildings not revalued during the year was materially accurately stated at 31 March 2017.</p>

Audit of the accounts – Preston City Council (cont.)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Changes to the presentation of local authority financial statements</p> <p>CIPFA has been working on the 'Telling the Story' project to streamline the financial statements and improve use accessibility This has resulted in changes to the presentation of income and expenditure in the financial statements and associated notes. A prior period adjustment (PPA) is also required to restate the 2015/16 comparative figures.</p>	<p>As part of our audit work we:</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 has not identified any issues in relation to the risk identified</p>

Audit of the accounts – Preston City Council (cont.)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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>As part of our audit work we have considered the risk factors set out in ISA240 and the nature of the revenue streams at Preston City Council and 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</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we:</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>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 20 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit later than anticipated but in advance of the statutory deadline of 30 June 2017, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 20 September 2017.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>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. 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</p>	<p>We 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>A sound process is in place to produce the MTFs and update projections.</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. The Council has recognised the need to keep its budget monitoring under review to ensure the accuracy of projections</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has 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>

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	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>On that basis we concluded that the risk was sufficiently mitigated and we are satisfied that the Council has appropriate arrangements to manage the risks associated with its City Centre regeneration ambitions. Officers recognise the financial risks associated with the plans and have appropriate governance arrangements to minimise the Council's exposure to risk</p>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit. No non-audit or audit related services have been undertaken for the Council.

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Preston City Council	60,627	60,627	60,627
Housing Benefit Grant Certification	10,613	10,613*	14,850
Total fees (excluding VAT)	71,240	71,240	75,477

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

* The fee included is currently an estimate as we have not yet completed this work.

Reports issued

Report	Date issued
Audit Plan	April 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017



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