

The Annual Audit Letter for Preston City Council

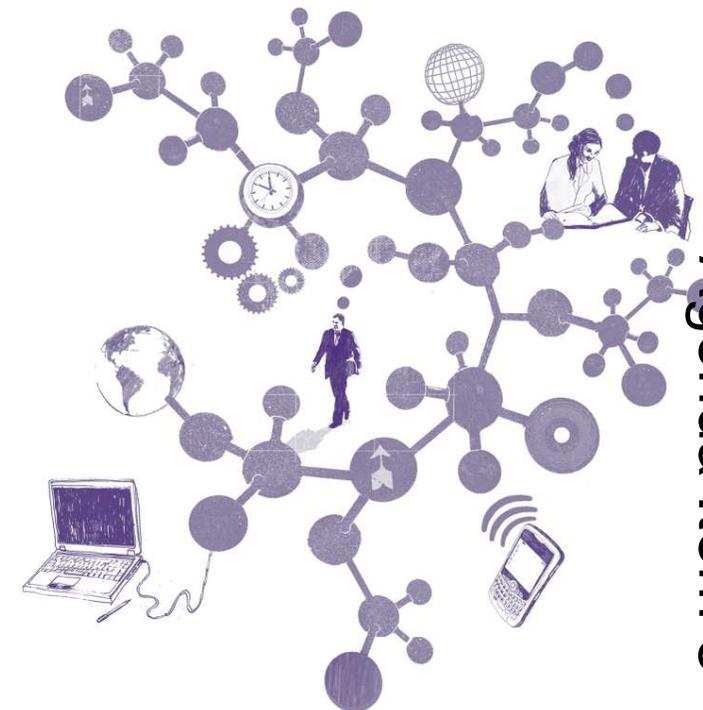
Year ended 31 March 2016

October 2016

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Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	4
3. Value for Money conclusion	9
4. Working with the Council	11

Appendices

A Reports issued and fees

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Preston City Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that 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 21 September 2016.

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 21 September 2016.

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 2016. We reflected this in our audit opinion on 21 September 2016.

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 21 September 2016.

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 ahead of 30 November 2016. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Working with the Council

We have worked with you to move towards the early close of the accounts. You have a good track record of preparing your accounts ahead of the deadline and we have worked with you to bring our work forward.

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 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating 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 £1.781m, 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 a lower level of specific materiality for certain areas such as senior officer remuneration, the audit fee and related party transactions.

We set a lower threshold of £89,000, 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 that 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 management 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 on which we give 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 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

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
<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>Having considered the risk factors set out in ISA240 and the nature of the revenue streams 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>There were no matters to report.</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"> • Undertook testing of journal entries • reviewed accounting estimates, judgements and decisions made by management • reviewed any of unusual significant transactions. <p>There were no matters to report</p>
<p>Valuation of surplus assets and investment property</p> <p>The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13.</p> <p>The basis on which fair value is defined for investment property is also different to that used in previous years. This represents a significant change in the basis for estimation of these balances in the financial statements.</p> <p>There are also extensive disclosure requirements under IFRS 12 which the Council needed to comply with.</p>	<p>We undertook the following audit work:</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 the basis on which the valuation was carried out with the Council and challenged the key assumptions • reviewed and challenged 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 • reviewed the disclosures made by the Council in its financial statements to ensure they met the requirements of the CIPFA Code of Practice and IFRS13. <p>There were no matters to report</p>

Audit of the accounts

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
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>As part of audit work we:</p> <ul style="list-style-type: none"> documented the key controls put in place by management to ensure that the pension fund liability was not materially misstated undertook walkthrough testing of the key controls to assess whether they were implemented as expected and mitigated the risk of material misstatement in the financial statements. reviewed of 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 asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>There were no matters to report</p>
<p>Employee remuneration accruals understated (Remuneration expenses not correct)</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 walkthrough testing of the key controls to assess the whether those controls were in line with our documented understanding sample tested employee remuneration payments to ensure employees existed, payments were correctly calculated and recorded correctly in the ledger tested the monthly payroll reconciliation to confirm that payroll totals are accurately and completely recorded in the general ledger. <p>There were no matters to report.</p>
<p>Creditors understated or not recorded in the correct period (Operating expenses understated)</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 walkthrough of the key controls to assess the whether those controls were in line with our documented understanding sample tested operating expenses and year end payables/accruals to obtain assurance over validity of expenditure, categorisation and that they were accounted for in the correct period. searched for unrecorded liabilities by performing cut-off testing on post year end payments. <p>There were no matters to report</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 21 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of 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 Audit Committee on 21 September 2016.

Annual Governance Statement and Narrative Report

We are also 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.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have not used these powers in 2015/16.

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 2015 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 2016.

Value for Money

Risk identified	Work carried out	Findings and conclusions
<p>Financial position The Council has historically managed its finances well and has consistently achieved savings targets. It is on course to achieve a balanced budget for 2015/16. However, the financial position over the medium term means the Council now faces significant challenges. Reviewing and updating the medium term financial plan has meant critically appraising the assumptions made around future income and expenditure levels. This includes continually reassessing the assumptions made in respect of business rates retention and the impact of changes to New Homes Bonus on the Council's plans. The Council will need to make some difficult decisions about the provision of services. This may include changes to the scope and scale of services and the delivery models used.</p>	<p>We reviewed the outturn position for 2015/16 and the budget plans for 2016/17 and 2017/18 and have reviewed the Council's progress in updating its medium term financial strategy</p>	<p>The Council had already achieved significant savings and the Medium Term Financial Strategy (MTFS) is based on realistic assumptions. When updating the MTFS the Council has thought about the impact of changes to central government funding over the next few years and this has been factored into the Council plans.</p> <p>The 2015/16 outturn confirms that there was an underspend of £1.4m in 2015/16. Of this £900k is recognised as expenditure which will now be incurred in a future year and this has been carried forward from 2015/16 into 2016/17 as an earmarked reserve. The remaining £546k related to underspends. As a result, the closing General Fund balance is £6.78m, compared to the City Treasurer's assessment of a minimum £1.1m balance.</p> <p>As part of the annual budget setting process the Council has updated its medium term financial strategy to cover the period until 2019/20. This sets out that, to ensure the Council has a general fund balance of not less than £1.1m at the end of 2019/20, it will have to identify and deliver savings of £1m in 2017/18, £2m in 2018/19 and £3m in 2019/20. The update to the plan sets out the planned use of reserves over the medium term.</p> <p>The Council has considered the income available to it. Assumptions have been made about the level of available but the uncertainties around future levels of funding, for example around business rates and new homes bonus have also been made clear.</p>

Value for Money

Risk identified	Work carried out	Findings and conclusions
<p>City Centre regeneration The Council is developing plans to support the regeneration of the city centre, which represent a significant investment in Preston.</p> <p>This represents risks and opportunities for the Council.</p>	<p>We have reviewed the progress is being made to drive forward development.</p> <p>We have reviewed the governance arrangements to ensure that risks and opportunities are managed appropriately.</p>	<p>The Council is driving forward regeneration of the city centre, with a significant capital programme planned to support the necessary investment. The impact of this is taken into account in the overall medium term financial strategy.</p> <p>The Council has identified that there are some risks identified to the financial forecast arising from any changes to the timing of plans. For example, the investment in the markets quarter has been included as a significant element of the capital programme. Other key elements of the schemes to improve the city centre are being considered by officers and members.</p> <p>The Council understands the need to work in partnership with others to deliver it's ambitious plans around City Centre regeneration. This forms part of a wider understanding of the need to work collaboratively and it is working with other councils in the area to deliver the City Deal, moving towards a combined authority for Lancashire, and working as part of the City Centre Collaboration Board to develop and deliver key projects.</p> <p>There is an action plan in place to support the Council in delivering on it's challenges including the need to support investment and business growth in the area, and to develop community resilience. The action plan also supports a reassessment of the organisational capacity to deliver.</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit 9 days before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

Sharing our insight – we provided regular audit committee updates covering best practice. Areas we covered included Innovation in public financial management, Knowing the Ropes – Audit Committee; Effectiveness Review, Making devolution work, Reforging local government.

We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – We have shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services

Providing training – we provided your teams with training on financial accounts, and an event on early close. The courses were attended by members of your finance team

Looking forward to 2016/17

We will continue to liaise closely with your senior finance team during 2016/17 on important accounting developments, providing timely feedback on any emerging issues.

The audit risks we identify associated with your 2016/17 accounts, and the work we plan to carry out to address them, will be reflected in our 2016/17 audit plan.

We will also continue to work with you and support you over the next financial year. Locally our focus will be on:

- **An efficient audit** – continuing to deliver an efficient audit, including working with you towards the early close deadline in 2017/18.
- **Understanding your operational health** – we will focus our value for money conclusion work on your arrangements to deliver financial balance and city centre redevelopment

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	60,627	60,627	80,836
Housing Benefit Grant Certification	14,850	14,850	14,150
Total fees (excluding VAT)	75,477	75,477	94,986

Our work to certify your housing benefits claim is ongoing and we will confirm the final fee on completion of the work.

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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