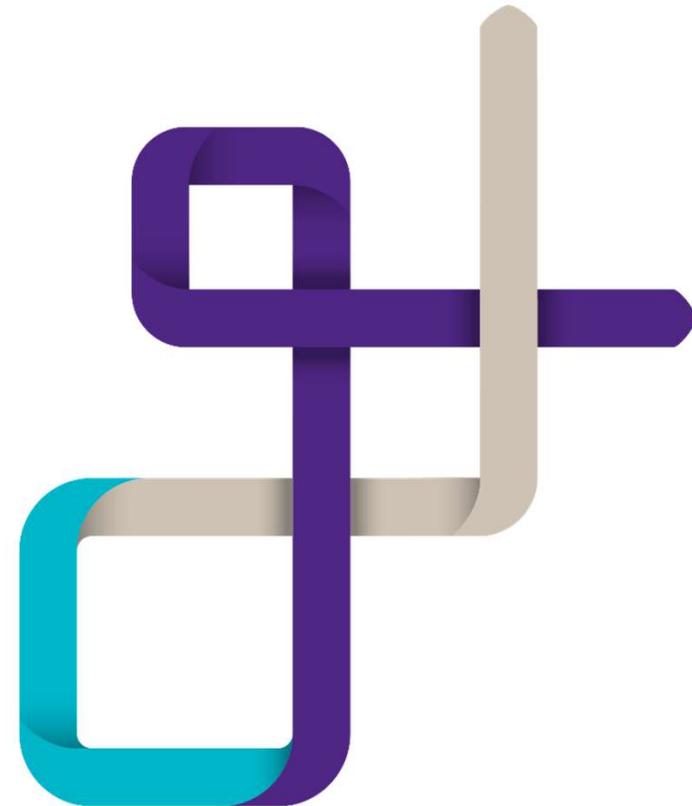


Audit Findings Report

Year ended 31 March 2018

Preston City Council

24 July 2018



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

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Headlines

This table summarises the key issues arising from the statutory audit of Preston City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the group and Council's financial statements give a true and fair view of the group's and Council's financial position and of the group and Council's expenditure and income for the year, andhave been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July. Our findings are summarised on pages 4 to 12. We have identified presentational and disclosure adjustments to the financial statements but these have not resulted in any change to the draft outturn reported in the Statement of Comprehensive Income and Expenditure. Audit adjustments are detailed in Appendix A.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 30 July 2018, as detailed in Appendix C. These outstanding items include:</p> <ul style="list-style-type: none">completion of a small number of audit procedures and final review procedures;receipt of the signed management representation letter; andreview of the final set of financial statements. <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Preston City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C. Our findings are summarised on pages 13 to 16.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">report to you if we have applied any of the additional powers and duties ascribed to us under the Act; andcertify the closure of the audit	<p>We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018</p>

Acknowledgements

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.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- A full scope audit was required for the Council by the engagement team.

- An evaluation of the Council's internal controls environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 30 July 2018, as detailed in Appendix C. As a result of the audit the accounts were amended for misclassification and disclosure matters only. There is one unadjusted misstatement within the audited accounts which relates to accumulated absences of £148,000 and has been classified as a provision rather than an accrual.

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

Materiality calculations remain the same as reported in our Audit Plan as set out in the table below:

Our approach to materiality

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,718,000	Considered to be the level above which users of the accounts would wish to be aware in the context of overall expenditure.
Performance materiality	1,289,000	Assessed to be 75% of financial statement materiality.
Trivial matters	85,900	Assessed to be 5% of financial statement materiality.
Materiality for specific transactions, balances or disclosures		These items merit a lower materiality than financial statement level materiality due to being of particular interest to the public.
Senior officer remuneration	20,000	
Related party transactions	20,000	

Significant audit risks

Risks identified in our Audit Plan	Commentary
<p>1 Improper revenue recognition</p> <p>Under ISA (UK) 240 there is a rebuttable 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>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the 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 • the culture and ethical frameworks of local authorities, including Preston City Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Preston City Council.</p>
<p>2 Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtained a full listing of journal entries, and identified and tested unusual journal entries for appropriateness • evaluated the rationale for any changes in accounting policies or significant unusual transactions. <p>Our audit work has not identified any issues regarding management override of controls.</p>

Significant audit risks

Risks identified in our Audit Plan	Commentary
<p>3 Valuation of property, plant and equipment The Council revalues its land and buildings on a quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>In addressing the valuation risk we have:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • considered the competence, expertise and objectivity of management experts used • discussed the basis on which the valuation is carried out with the Council's internal valuer and challenged the key assumptions • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding • tested revaluations made during the year to ensure they are input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value • tested material additions and disposals and reviewed the depreciation calculation • reviewed the Council's consideration of asset impairment. <p>Our audit work has not identified any issues regarding the valuation of property, plant and equipment.</p>

Significant audit risks

Risks identified in our Audit Plan	Commentary
<p>4 Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none">• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated• evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out• undertook procedures to confirm the reasonableness of the actuarial assumptions made• checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary• checked the Council's accounting for and reporting of the prepayment to the pension fund during 2017/18• reviewed the accounting treatment of the £4.2m prepaid deficit recovery contribution. <p>Our audit work has not identified any issues regarding the valuation of the pension fund net liability.</p>

Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
<p>5 Employee remuneration Payroll expenditure represents a significant percentage of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.</p>	<p>Auditor commentary</p> <p>In addressing the understatement risk we have:</p> <ul style="list-style-type: none"> evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness gained an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls agreed payroll expenditure from sub-systems to general ledger control accounts performed a predictive analytical review of payroll expenditure and compare to the reported figures. <p>Our audit has not identified any issues or matters arising in response to the risk identified.</p>
<p>6 Operating expenses and associated creditors Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non-pay expenses and the associated creditors and year end cut off as a risk requiring particular audit attention:</p>	<p>Auditor commentary</p> <p>In addressing the completeness and cut off risk we have:</p> <ul style="list-style-type: none"> evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls agreed creditor balances to general ledger control account tested a sample of operating expenditure to ensure it is accounted for correctly and in the correct period. <p>Our audit has not identified any issues or matters arising in response to the risk identified.</p>

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<ul style="list-style-type: none"> Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. Council Tax and Non Domestic Rate income is recognised in the Collection Fund on an accruals basis, when it is due from the Council Tax or Non Domestic Rate payer. The Council's share of this income is recognised in the CIES. Government grants are recognised when there is reasonable assurance that the Council will comply with any conditions attached to the payments, and the grants or contributions will be received. 	<ul style="list-style-type: none"> The Council's policy is appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code) The main elements of the Council's revenues are predictable and there is minimal judgement required from the Council The accounting policy is appropriately disclosed in note 1 to the financial statements. 	<p style="text-align: center;"> GREEN</p>
<p>Judgements and estimates</p>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> Useful lives of property, plant and equipment Pension fund valuations and settlements Revaluations and impairments of assets Provisions and accruals 	<ul style="list-style-type: none"> The Council's accounting policies for key estimates and judgements are appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code) Critical judgements, estimation uncertainty and accounting policies are appropriately disclosed in notes 1, 3 and 4 to the financial statements Out audit testing of key estimates and judgements has considered the extent of judgement involved, the potential impact of different assumptions and the range of possible outcomes. We are satisfied that the key estimates and judgements are appropriate and adequately disclosed. 	<p style="text-align: center;"> GREEN</p>

Assessment

-  **RED** Marginal accounting policy which could potentially be open to challenge by regulators
-  **AMBER** Accounting policy appropriate but scope for improved disclosure
-  **GREEN** Accounting policy appropriate and disclosures sufficient

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Other policies	<p>Accounting standards issued but not yet adopted note 2</p> <p>Accounting Policies Note 1</p>	<p>Management have provided an initial assessment of the impact of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts in 2018/19, which are due for implementation in 2018/19. We recognise that it is too early for the Council to make a full assessment of the impact of these new standards.</p> <p>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.</p>	 GREEN

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	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period relevant to our audit opinion and no other issues have been identified during the course of our audit procedures.
2	Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
3	Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. To this extent we have met with the Council's Monitoring Officer and we sought assurances from the Audit Committee.
4	Written representations	A standard letter of representation has been requested from the Council.
5	Confirmation requests from third parties	We requested and received third party confirmations from investment and loan counterparties including the Bank of Scotland and other third party bankers.
6	Disclosures	Our review found no material omissions in the financial statements. Management agreed to amend a number of disclosures in the accounts resulting from the audit as set out in Appendix A.
7	Significant difficulties	No difficulties were experienced in obtaining working papers or explanations for audit queries from the finance team.

Other responsibilities under the Code

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

Issue	Commentary
1 Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to Appendix C.</p>
2 Matters on which we report by exception	<p>We are required to report by exception in a numbers of areas:</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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
3 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.</p> <p>The Council does not exceed the specified group reporting threshold and, consequently, this work is not required.</p>
4 Certification of the closure of the audit	<p>We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014.</p>

Value for Money

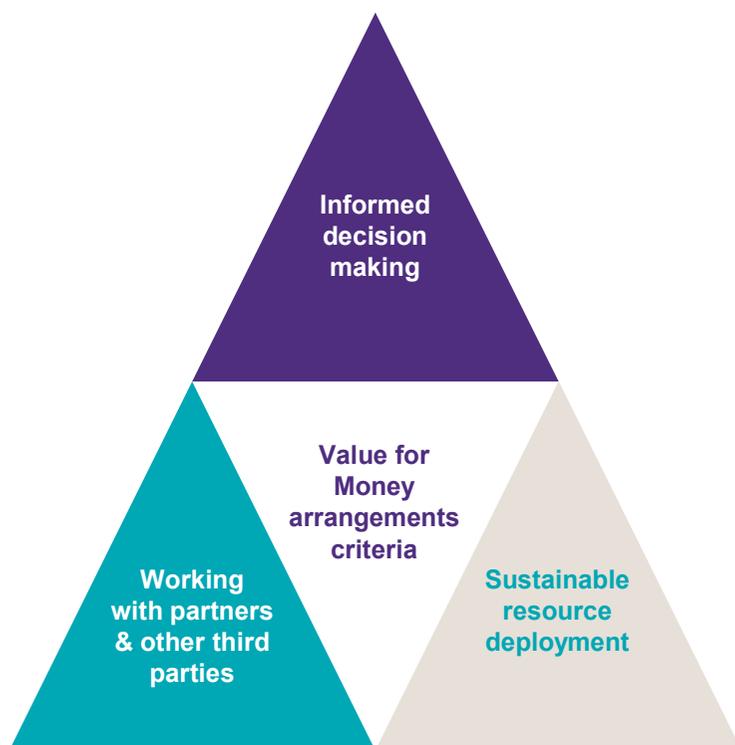
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in December 2017 and identified two significant risks in respect of:

- updating the medium term financial strategy and identifying future savings
- supporting major capital schemes for the regeneration of the city centre.

We communicated these risks to you in our Audit Plan dated 11 January 2018.

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

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

Value for Money

Our work

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

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

- robustness of the updated Medium Term Financial Strategy (MTFS) and the reasonableness of the underlying assumptions and savings proposals
- progress made to manage the risks associated with the delivery of the regeneration of the city centre

We have set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work on page 15.

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 C.

Recommendations for improvement

We discussed findings arising from our work with management and have not made any recommendations for improvement.

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.

Key findings

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

	Significant risk	Findings	Conclusion
1	<p>The Council is on course to deliver a balanced budget in 2017/18. However, additional savings will be required over the period from 2019/20 to 2021/22 to enable the Council to maintain general fund reserves at the minimum level of £1.1m. We will review the outturn in 2017/18 and the updated medium term financial strategy and assess the progress made to identify future savings.</p>	<p>The outturn position at 31 March 2018 was a net underspend of £0.363m. The MTFS has been updated to cover the period to 2021/22. Significant savings have already been achieved as part of the Four Year Efficiency Plan but a number of ambitious savings proposals still need to be implemented. If the savings do not materialise as planned this will require immediate action to identify alternative savings. The Council has identified a contingency list of additional savings in the event that the planned savings are not achieved. Further savings of around £0.5m in 2020/21, rising to £1.0m in 2021/22, will need to be found to maintain general fund balances at the minimum recommended level of £1.1m. The Cabinet has continued to work on implementing the efficiency plan savings through regular meetings of its Budget Working Group. Major savings have already been achieved during 2018/19. The leisure centres were successfully transferred to Greenwich Leisure Limited, securing annual savings of £700k, and efficiency savings of £300k were achieved from the introduction of new technology, mainly in the Contact Centre. Work will continue during 2018/19 implementing management cost savings, the digital agenda and actions identified within the Investment Property action plan. Council tax income levels are projected to rise in future years and the accuracy of these forecasts will need to be kept under review.</p>	<p>Auditor view</p> <p>The Council has satisfactory arrangements to ensure a balanced budget position and maintain general fund balances at a minimum level of £1.1m. Further ongoing savings of around £1.0m will be required for 2020/21 and 2021/22. The Council has a good track record of delivering the required savings but future savings initiatives will become increasingly more difficult to achieve. The greatest financial challenge for the Council is to achieve long term financial stability because the use of balances and reserves to offset overspending is only sustainable over the short term. The continuing financial pressures mean that the Council may be faced with difficult decisions regarding the level of non-statutory services that can continue to be provided.</p>

Key findings

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

Significant risk	Findings	Conclusion
<p>2 The Council is continuing to support major schemes for the regeneration of the city centre. However, there is also a risk of excessive capital investment which could put further pressure on the Council's financial position.</p> <p>We will review officers proposals to drive development forward and:</p> <ul style="list-style-type: none"> • consider the level of financial assistance that the Council is planning to provide; • assess the governance arrangements to ensure that risks are properly understood and managed 	<p>The Council has successfully delivered the new Market Hall and revitalised outdoor market and this forms the majority of capital spend in the year. Although discussions continue in relation to the cinema led development these have not yet concluded. There is uncertainty whether the scheme can be successfully delivered unless the Council's level of financial risk is reduced. The Council continues to deliver a range of improved services across the Harris building. Further progress will be made in moving to a shared library, museum and art gallery service in the Harris. Plans are underway to submit a revised significant funding application to Heritage Lottery Fund. Over 3,000 houses have been built in the City Deal area so far. The final phase of works linking the railway station to the bus station are due to be completed in late summer 2018.</p> <p>The capital programme for the period from 2017/18 to 2021/22 totals £37.6m, although around £11.5m of this relates to Community Infrastructure Levy. The Council is planning to increase its borrowing levels by £15.2m over this period to help fund the remainder of the capital programme but it is anticipated that this can be funded by internal borrowing.</p>	<p>Auditor view</p> <p>The Council is successfully managing the risks associated with the regeneration of the city centre. Despite its ambition to bring the cinema led development to fruition the Council is exercising due care to ensure it is not exposed to an unmanageable level of financial risk. The capital programme for the period to 2021/22 appears to be achievable and affordable.</p> <p>The Cabinet is continuing to review city centre assets with the aim of actively seeking development opportunities by reducing the level of empty properties and exploring opportunities for asset disposals. Significant progress has been made on a number of projects which are improving the city for residents, visitors and businesses alike.</p>

Independence and ethics

Independence and ethics

- 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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers and managers). In this context, we disclose the following to you:

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. No non-audit fees or services were identified.

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Misclassification/Disclosure omission	Detail	Adjusted?
Various		
Management agreed to sundry disclosure requests to the financial statements.	<ul style="list-style-type: none"> Note 14b Financial Instruments: Short term investments of £3.264m included twice in the disclosure note of financial assets held at fair value Note 32 Capital expenditure and financing: Capital investment of property plant and equipment shown as £5.611m but £822,000 of this relates to investment properties and should be classified separately. Collection Fund Note 3: NNDR multiplier quoted as £0.466 but should be £0.479. 	<p>✓</p> <p>✓</p> <p>✓</p>
Balance Sheet:		
Re-classification of cash equivalents	Cash equivalents include a figure of £2.1m but this should be classified as short term investments as the investment was placed for a period exceeding 3 months.	✓
Re-classification of accumulated absences provision.	Provisions include a figure of £148,000 relating to accumulated absences but this should be classified as an accrual.	X

Fees

We confirm below our final fees charged for the audit and provision of non-audit services

Audit Fees	Proposed fee £	Final fee £
Council Audit	60,627	60,627
Grant Certification		
Certification of Housing Subsidy Return	10,613	TBC
Total audit fees (excluding VAT)	£71,240	£TBC

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA) Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. This work will be undertaken in September and October prior to the deadline of 30 November 2018.

Audit opinion (draft)

We anticipate we will provide the Council with an unmodified audit report

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

Report on the Audit of the Financial Statements

Opinion

- We have audited the financial statements of Preston City Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

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

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

Other information

The City Treasurer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 1 to 105, the Narrative Report, the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

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

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

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

As explained more fully in the Statement of Responsibilities set out on page 22, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the City Treasurer. The City Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the City Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the City Treasurer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2018 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

To be signed

John Farrar
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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