



Lancaster City Council

Report to the Audit Committee on the 2021/22 and 2022/23 audits – issued on 22 November for meeting on 27 November 2024

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Executive summary

The key messages in this report:

In this report, we present the results of the work we have performed as appointed auditor to Lancaster City Council (the Council) for 2021/22 and 2022/23.

Statement of Accounts

Local authorities are required by the Accounts and Audit (Amendment) Regulations 2024 to publish their financial statements and audit reports by a legislative ‘backstop’ date. This is 13 December 2024 for financial years up to 31 March 2023. The introduction of the backstop has limited our ability to complete our financial statement audit work, as detailed in our Planning Report to the Committee dated 31 October 2024. The time available prevents us from obtaining sufficient, appropriate audit evidence to form an opinion before the backstop date for the financial years 2021/22 and 2022/23.

These limitations are significant and pervasive in extent, and auditing standards therefore require us to issue a disclaimer of opinion in our audit reports for the financial years 2021/22 and 2022/23. The Financial Reporting Council has published an accessible guide to the overall programme of work to recover the local authority accounts backlog, [Local Audit Backlog - Rebuilding Assurance](#), and the implications of disclaimers of opinion for future years.

We are currently finalising the procedures outlined in our planning report, which reflect the Local Audit Reset and Recovery Implementation Guidance. We have provided an update on the status of these procedures on pages 6 to 9 and will verbally update the Audit Committee on their status on 27 November 2024. However, until all of these procedures are finalised, we are unable to confirm that there are no findings that we are required to report to those charged with governance. When we have reviewed the updated accounts and confirmed which changes have been made, we will report to management any remaining uncorrected disclosures misstatements.

Our audit report will explain that the disclaimer of opinion is necessary due to the backstop provisions.

Value for Money procedures

Our Value for Money work is on-going, and will be reported in our Auditor’s Annual Report in December 2024. We have not identified to date any risks of significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources.

We have no matters to report by exception in our financial statement audit report.

Our audit report will state that our Value for Money work is on-going.

Executive summary (continued)

The key messages in this report (continued):

Duties as public auditor	We received one objection from local electors in respect of the financial years 2021/22 and 2022/23. We are currently finalising our procedures in this area and are liaising with the PSAA prior to issuing a response to the objector. We will be unable to issue our report on the accounts until the objection has been responded to.
Interaction with the incoming auditor	<p>The Council published its draft 2023/24 statement of accounts for inspection on 2 August 2024, compared to a required publication date of 31 May 2024. The delay in publication was endorsed by the Audit Committee at the November 2023 meeting, with additional updates provided to the May and July 2024 meetings.</p> <p>We will co-operate with KPMG, your appointed auditor for 2023/24 onwards, in the handover of the audit of the Council.</p>

Why we cannot issue an audit opinion

Our audit report will include a disclaimer of opinion, as we have not been able to obtain sufficient, appropriate audit evidence on which to base an opinion

Explanation

The introduction of the 'backstop' date has limited the scope of our financial statement audit work. The time available prevents us from obtaining sufficient, appropriate audit evidence to form an opinion before the backstop date.

Because we have not performed testing, the possible effect on the financial statements of undetected misstatements, if any, could be both material and pervasive.

Auditing standards require us to issue a 'disclaimer of opinion' in this situation. The disclaimer applies to the whole of the financial statements. It means that readers should not rely on our audit work when using the financial statements.

How the disclaimer affects our audit report

Our audit report is required to explain the reasons that gave rise to the disclaimer. The backstop is a limitation upon our audit due to legislative reasons, and we will explain this in our audit report. Even with a disclaimer of opinion, we are still required to report any known, material issues in the financial statements. We have identified that the 2021/22 accounts have not been updated for the 2022 triennial information and we are required to state this in our 2021/22 and 2022/23 opinions. Our opinions are currently subject to our internal quality control procedures and will be shared with management ahead of signing. While audit reports typically include commentary on the use of the going concern basis for preparing the financial statements, this commentary is not included when a disclaimer of opinion is issued.

Because of the timing of the statutory backstop, we have not planned or performed procedures to address the risk of fraud or non-compliance with laws and regulations. We will state this in our audit report. There are no matters that have come to our attention from our other work that we consider necessary to report upon in respect of fraud or non-compliance with laws and regulations.

ISA required reporting

ISA 260 requires to communicate with those charged with governance:

- Significant difficulties, if any, encountered during the audit; and
- Any other significant matters arising during the audit that, in our professional judgement, are relevant to your oversight of the financial reporting process.

Our reporting in respect of the backstop fulfils this in respect of this significant matter.

We have made a number of control recommendations in previous years which reflect improvements needed in the financial reporting process. These recommendations will need to be addressed to ensure timely financial reporting and audit for future periods.

Summary of work performed: audit procedures and findings

We are in the process of completing the procedures set out in our planning report

Overview of procedures performed

The table below shows our planned procedures (as per our planning report dated 31 October 2024) and our findings. All of the procedures below are currently going through our quality review procedures and until these are finalised there may be findings that we are required to report to the Audit Committee.

Financial statement procedures	Findings
We obtained an understanding of management's process for the preparation of the financial statements, including any updates to the originally published accounts necessary for findings from previous audits.	No issues identified at the time of writing this report that require reporting to the Audit Committee.
We reviewed the draft financial statements, including performing overall analytical procedures.	From our review of the draft financial statements, we noted a number of queries. We are currently awaiting receipt of the updated Statement of Accounts for 2021/22 and 2022/23 to then review the changes made. We will provide a verbal update at the Audit Committee on 27 November 2024.
We agreed the primary statements (comprehensive income and expenditure statement, balance sheet, statement of cashflows, and movement in reserves statement), the Housing Revenue Account, and the Collection Fund to supporting accounting records.	No issues identified at the time of writing this report that require reporting to the Audit Committee.

Summary of work performed: audit procedures and findings (continued)

Financial statement procedures	Findings
We agreed the opening balances and comparative figures to the prior year financial statements.	We identified a small number of discrepancies as a result of our procedures. We are awaiting receipt of the updated Statement of Accounts to confirm if the changes have been made or if there are items requiring of reporting. We will provide a verbal update to the Audit Committee on 27 November 2024.
We performed a “call and cast” of the financial statements for internal consistency and arithmetic accuracy.	We identified a small number of discrepancies as a result of our procedures. We are awaiting receipt of the updated Statement of Accounts to confirm if the changes have been made or if there are items requiring of reporting. We will provide a verbal update to the Audit Committee on 27 November 2024.
We reviewed the financial statements for compliance with the CIPFA Code.	Our procedures identified a number of queries that we have communicated to management. We are awaiting receipt of the updated Statement of Accounts to confirm if the changes have been made or if there are items requiring of reporting. We will provide a verbal update to the Audit Committee on 27 November 2024.
We have discussed with management any apparent errors, omissions, or inconsistencies that were not clearly trivial, and requested correction of identified misstatements (including disclosure deficiencies).	We identified through enquiry with management that the 2021/22 Statement of Accounts have not been updated to reflect the member data from the 2022 triennial valuation of the Local Government Pension Scheme. Our audit report for both 2021/22 and 2022/23 will make reference to this.

Summary of work performed: audit procedures and findings (continued)

Other planned procedures

Findings

Fraud inquiries

We inquired of the Section 151 Officer, as to their knowledge of any fraud or allegations thereof affecting the Council for the period.

Due to the timing of the statutory backstop, we have not been able to perform the other fraud-related procedures required by auditing standards.

Our inquiries did not identify any instances of fraud or allegations of fraud, other than matters already included in the reports to Audit Committee.

Compliance with laws and regulation

We inquired of the Section 151 Officer, as to their knowledge of any instances of non-compliance with laws or regulation for the period.

Management confirmed that there was no correspondence with other regulators or HMRC in the period.

Due to the timing of the statutory backstop, we have not been able to perform the other procedures related to non-compliance with laws and regulations required by auditing standards.

Our inquiries did not identify any instances of non-compliance with laws and regulations.

Our review of correspondence with regulators did not identify any instances of non-compliance with laws and regulations.

Overall audit procedures that also impact upon our Value for Money procedures

We reviewed the minutes of the Council and its principal committees for the period.

We reviewed the Internal Audit reports for the period.

Our procedures did not identify any issues in respect of the financial statements requiring reporting.

Summary of work performed: audit procedures and findings (continued)

Other planned procedures

Findings

Annual Governance Statement

We reviewed the Council's Annual Governance Statement to determine whether it is misleading or inconsistent with other information known to us from our audit work (including from our Value for Money procedures).

We did not identify any inconsistencies with other information known to us from our procedures.

We note that the Annual Governance Statement for both 2021/22 and 2022/23 have not been updated through to the planned signing date and we have therefore reported this as a disclosure deficiency.

Subsequent events

We inquired of management whether there are any subsequent events that affect the open years of account, and if so whether and how they have been reflected in the financial statements.

No subsequent events, other than those disclosed in the Statement of Accounts, have been identified by management.

Other matters for your consideration

Materiality

Although the extent of planned procedures does not include testing of balances, we are required to determine materiality to evaluate any identified misstatements (and so whether the financial statements are materially misstated).

We have set materiality based on gross expenditure per the draft financial statements, and the threshold above which we report misstatements to the you, as:

Financial year	Materiality	% of gross expenditure	Reporting threshold
2021/22	£2.3m	2%	£113k
2022/23	£2.3m	2%	£116k

Significant risks

We have not completed the risk assessment procedures required by ISAs to identify significant risks for the financial years subject to audit, or performed procedures to respond to identified risks of material misstatement. The significant risks which we had identified in respect of the 2020/21 audit, and for which the Audit Committee may wish to consider the internal assurances in place in respect of for the open years of account, were:

- Management override of controls (a presumed risk for all audits);
- Classification of covid-19 grants; and
- Valuation of property assets

Value for Money: procedures performed

Our Value for Money commentary will be included in our Auditor's Annual Report

Value for Money requirements

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2024 and related Auditor Guidance Note 03 ('AGN03'), we are required to:

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against two reporting criteria (financial sustainability and governance, with improving economy, efficiency and effectiveness not a required criterion for audits up to 31 March 2023);
 - Perform a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
 - If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
 - Issue a narrative commentary in the Auditor's Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to Value for Money arrangements, which might include emerging risks or issues arising; and
 - Where significant weaknesses are identified, report this by exception within our financial statement audit report.
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Status of our work

Our Value for Money work is on-going, and will be reported in our Auditor's Annual Report in December 2024. It should be noted that there is a requirement to include any known significant weaknesses in our audit report, if they are known at the date the audit report is issued. We have not identified any significant weaknesses from our procedures to date.

Purpose of our report and responsibility statement

Our report sets out the work we have performed and the impact of the backstop provisions upon our audit.

This report has been prepared for the Audit Committee and the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Deloitte LLP

Newcastle upon Tyne | November 2024

Appendices



Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and our objectivity is not compromised.

Audit fees

Public Sector Audit Appointments Limited (“PSAA”) has set the scale fee as £44,959 for each of the financial years of 2021/22 and 2022/23. This scale fee has not reflected the actual scope and cost of performing the audit of the Council, including the additional Value for Money requirements from 2020/21 onwards, and therefore this would have been subject to fee variations if the audit had not been impacted by the backstop provisions. PSAA has not yet published details of how it plans to adjust the scale fee to reflect the actual costs of audits which are affected by the backstop, and so the adjustment that will be made to this scale fee amount. Both years will also include additional fees in respect of work carried out in relation to objections received to the accounts. There are no non-audit fees.

Non-audit services

In our opinion there are no inconsistencies between the FRC’s Ethical Standard and the Council’s policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships

We have no other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.



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