



Lancaster City Council

Report to the Audit Committee on the 2020/21 audit
Issued on 22 November for the meeting on 27 November 2024

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Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit Committee of Lancaster City Council (the Council) for the 2020/21 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2022.

Status of our Statement of Accounts audit

Our audit is substantially complete subject to completion of the following principal matters:

- review of updated financial statements;
- receipt of reconciliations in relation to the covid-19 grants disclosure;
- finalisation of our procedures in respect of notes 6 and 8;
- completion of internal quality assurance procedures;
- receipt of signed management representation letter; and
- our review of events since 31 March 2021 through to signing.

We will report any non-trivial residual uncorrected errors in the management representation letter.

Status of our Value for Money audit

Our Value for Money work is on-going, and will be reported as part of our combined Auditor's Annual Report to cover the three periods 2020/21 – 2022/23.

Based on our work to date we have not identified any risks of significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources.

Based on our work to date we have no matters to report by exception in our financial statement audit opinion.

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

Introduction

The key messages in this report (continued)

Conclusions from our testing

- Based on our work to date, we have not identified any significant uncorrected audit adjustments or disclosure deficiencies.
- Based on the current status of our audit work, we envisage issuing an unmodified audit opinion, with no reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement.

Narrative Report & Annual Governance Statement

- We have reviewed the Council's Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work.
- The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE.
- We have no matters to raise with you in respect of the Narrative Report, with the exception that the Annual Governance Statement has not been updated through to the date of signing and has therefore been included as a disclosure deficiency.

Duties as public auditor

- We received an objection from a local elector in respect of this year. 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.

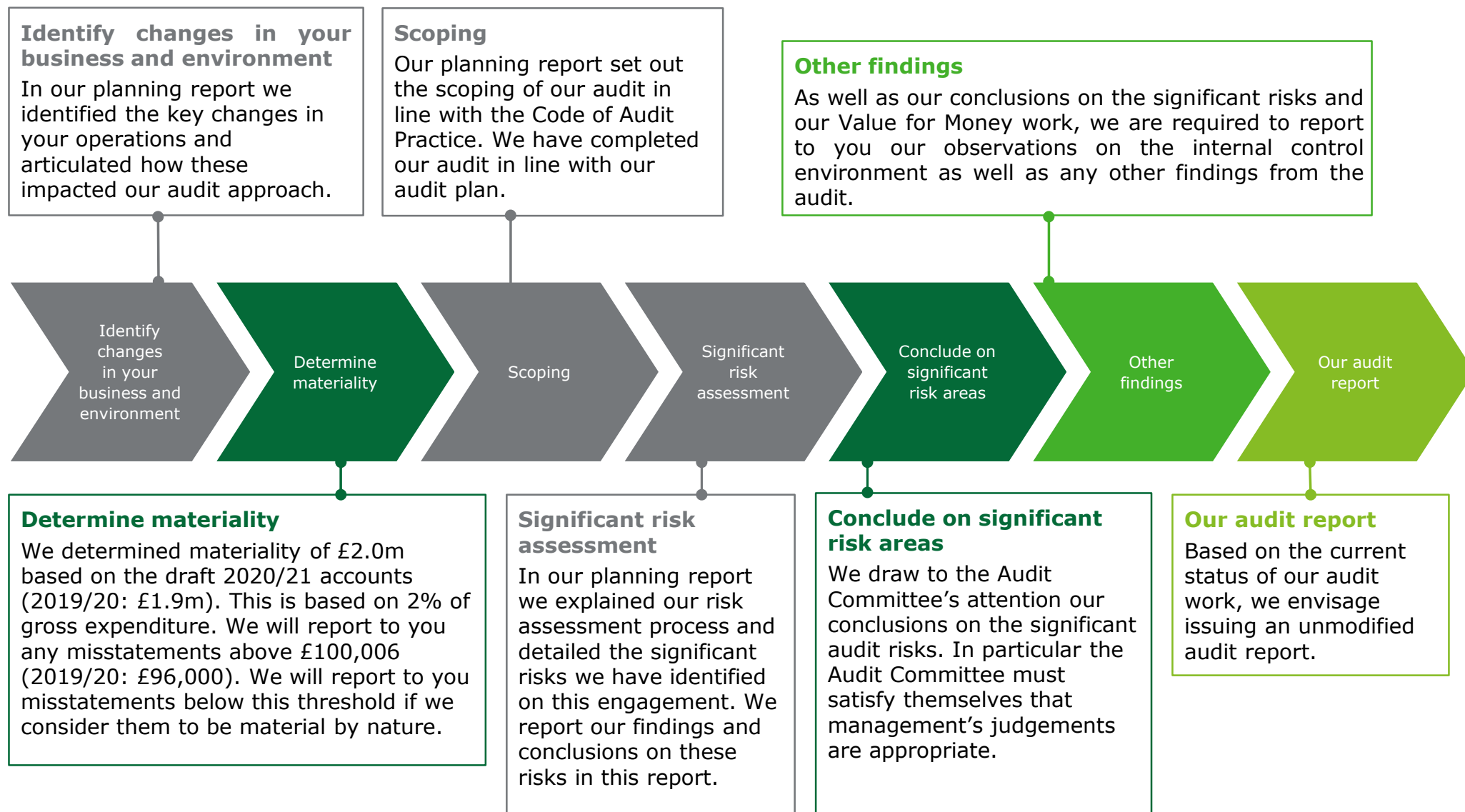
Whole of Government Accounts

- We were not required to provide any reporting to the National Audit Office as part of our audit procedures.

Paul Hewitson
Audit Lead

Our audit explained

We tailor our audit to your organisation and your strategy



Significant risks

Classification of COVID-19 grants

Risk identified	<p>ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.</p> <p>We have assessed the income streams of the Council, the complexity of the recognition principles and the extent of any estimates used, and concluded that, with the exception of the funding received in 2020/21 in response to the COVID-19 pandemic, there is no significant risk of fraud.</p> <p>During 2020/21, the Council has received additional funding in relation to COVID-19 costs. In addition, there are a number of business support schemes designed to help eligible businesses during the COVID-19 pandemic that are being administered by Councils of behalf of the Government.</p> <p>We have pinpointed the significant risk in relation to the classification of whether the COVID-19 grants are 'Agent' or 'Principal'.</p>
Deloitte response and challenge	<p>We have performed the following:</p> <ul style="list-style-type: none">• Assessed the design and implementation of the control in relation to the determination of whether a COVID-19 grant is 'Agent' or 'Principal';• Tested a sample of COVID-19 grants to confirm that they have been appropriately classified; and• Testing the agency arrangement disclosures to confirm, where it is concluded that the Council is acting as agent, that:<ul style="list-style-type: none">• Transactions have been excluded from the Comprehensive Income and Expenditure Statement;• The Balance Sheet reflects the debtor or creditor position at 31 March 2021 in respect of cash collected or expenditure incurred on behalf of the principal; and• The net cash position at 31 March 2021 is included in the financing activities in the Cash Flow Statement.
Conclusion	<p>We are currently finalising our procedures in respect of the disclosures of the grants. Based on our work to date, we do not have anything to report to the Audit Committee. We will provide a verbal update at the meeting on 27 November.</p>

Significant audit risks (continued)

Valuation of property assets

Risk identified

The Council held £239.0m of property assets at 31 March 2020 which, as set out in the draft financial statements increased to £248.5m as at 31 March 2021. Included within this increase are net adjustments due to valuations of £12.8m. In addition the Council hold £33.2m of investment properties which decreased by £1.6m due to revaluations in the year.

The Audit Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.

Furthermore the Council completed the valuation as at the 1 April 2020. Any changes to factors used in the valuation process could materially affect the value of the Council's assets as at year-end.

The level of judgement required in arriving at asset valuations leads us to conclude that there is a risk that the value of property assets, including investment property, may be materially misstated.

Deloitte response and challenge

We have performed the following procedures:

- We have tested the design and implementation of key controls in place around the property valuation, and how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation;
 - We have reviewed the revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals;
 - We have used our valuation specialists, Deloitte Real Estate, to support our review and challenge the appropriateness of the Council's assumptions and judgements on its assets values;
 - We have tested a sample of revalued assets and re-performed the calculation assessing whether the movement has been recorded through the correct line of the accounts; and
 - Used appropriate indices we will evaluate whether assets not revalued are stated at a value materially different to their fair value.
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Conclusion

We have historically raised a number of recommendations in relation to the revaluation process, which are primarily related to the information and detail included in both the terms of engagement and valuation certificates. We have not duplicated these recommendations and will instead provide management with a control letter which sets out our observations across both the 2019/20 and 2020/21 audit. From our procedures, we have nothing to report to the Audit Committee.

Significant audit risks (continued)

Management override of controls

Risk identified

In accordance with ISA 240 (UK and Ireland) management override of controls is a significant risk for all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

The key judgements in the financial statements include those which we have selected to be the significant audit risks, (classification of COVID-19 grants and the Council's property valuations) and any one-off and unusual transactions where management could show bias. These are inherently the areas in which management has the potential to use their judgement to influence the financial statements.

Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

- We have tested the design and implementation of key controls in place around journal entries and management judgements;
- We have risk assessed journals and selected items for detailed testing. The journal entries have been selected using computer-assisted profiling based on areas which we consider to be of increased interest;
- We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting;
- We have reviewed accounting judgements for biases that could result in material misstatements due to fraud; and
- We have not become aware of any significant transactions that are outside of the normal course of business for the Council.

Conclusion

As reported as part of the 2019/20 audit, management have a number of self authorised journals across the year. Management in response to our finding from the 2019/20 audit performed a retrospective review of all self authorised journals. We have nothing to report to the Audit Committee.

Value for money

Our work is on-going and will be reported 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 2020 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 each of the three reporting criteria (financial sustainability, governance, and improving economy, efficiency and effectiveness);
 - Undertake 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 opinion.
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Status of our work

Our Value for Money work is on-going, and will be reported as part of our combined Auditor's Annual Report to cover the three periods 2020/21 – 2022/23.

Based on our work to date we have not identified any risks of significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources.

Based on our work to date we have no matters to report by exception in our financial statement audit opinion.

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

Other matters

Objection to Accounts

Under the Local Audit and Accountability Act registered electors of the Authority may raise objections to the Statement of Accounts requesting that the Appointed Auditor consider the matters raised in the objection and determine whether the issues raised merit either a report in the public interest or declaration that an item of account is contrary to law.

In respect of the 2020/21 Statement of Accounts Deloitte received one objection in accordance with the provisions of the Act which we have considered under the terms of Auditor Guidance Note 4 Auditors Additional Powers and Duties (AGN04). Whilst the Act and associated guidance note should be considered the authoritative guidance in this respect, in summary to assist the Audit Committee's understanding of these matters the process is broadly summarised below.

- An objection must be raised within the designated window for electors to object to the Statements, must be made in writing, must be copied to the Authority and must contain sufficient detail as to convey a reasonable understanding of the matters in hand; and
- The objection must relate to an item included within the Statement of Accounts for a year for which an Audit Certificate has not been issued and the objector must be raised by a registered elector of the Authority.

If the above steps are passed then the objection may be declared eligible for consideration under AGN04. In determining whether to accept and consider the objection AGN04 sets out a range of matters which the auditor should have regard to which include:

- Whether the cost of considering the objection would be disproportionate to the sums involved;
- Whether the objection is frivolous or vexatious;
- Whether the objection repeats an objection already considered; and
- Whether the matter clearly falls outside the auditor's jurisdiction.

If the auditor concludes that an eligible objection will not be accepted and considered any further then this judgement must be communicated to the objector together with a statement setting out the auditor's reasons.

Where an eligible objection is accepted by the Auditor then the Auditor will undertake whatever investigations and enquiries are judged necessary to address the objection and, if concluded appropriate, issue a report in the public interest and/or apply to the courts for an item to be declared contrary to law.

Our audit report

The form and content of our report

Here we discuss how the results of the audit impact on our audit report. An overview of our financial statement audit work will be included in our Auditor's Annual Report.



Our opinion on the financial statements

Based on the current status of our audit work, we envisage issuing an unmodified audit report.

We will highlight that the going concern assessment is on the basis of the 'continuing provision of service' approach, and will report that we concur with management's use of the going concern basis of accounting.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Value for Money reporting by exception

Our opinion will note that our Value for Money work is ongoing and will be reported in our Auditor's Annual Report.

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



Irregularities and fraud

We will explain the extent to which we considered the audit to be capable of detecting irregularities, including fraud.

In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations. We will discuss the areas identified where fraud may occur and any identified key audit matters relating to fraud.

Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement..

	Requirement	Deloitte response
Narrative Report	<p>The Narrative Report is expected to address (as relevant to the Council):</p> <ul style="list-style-type: none">• Organisational overview and external environment;• Governance;• Operational Model;• Risks and opportunities;• Strategy and resource allocation;• Performance;• Outlook; and• Basis of preparation	<p>We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance.</p> <p>We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We identified a small number of inconsistencies which management have subsequently updated within the financial statements.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. We note that management have not updated the Annual Governance Statement has not been updated through to the date of signing of the accounts, and this has been included as a disclosure deficiency in the management representation letter.</p>

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for 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.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and work under the Code of Audit Practice in respect of Value for Money arrangements.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Newcastle upon Tyne | November 2024

Appendices



Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). Uncorrected misstatements debit the CIES by £0.816 million and credit net assets by £0.816 million.

		Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) OCI/Equity £m
Misstatements identified in current year				
Creditors	[1]	0.811	(0.811)	
Goodwin figure inclusion in pension balance	[2]	0.135	(0.135)	
Total		0.816	(0.816)	

[1] From our unrecorded liabilities testing we have identified a balance of £32k of spend which should have been recorded within the financial statements. This has been extrapolated to an £811k under reporting of creditors and expenditure.

[2] There has been no allowance made for the Goodwin legal case within the pension balance. This reflects the projected change to the liability to reflect the Goodwin cost within the pension balance.

Audit adjustments (continued)

Disclosures

Disclosure misstatements

The following uncorrected disclosure misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK).

Disclosure

PWLB fair value disclosure

The CIPFA Code requires that the PWLB fair value disclosures are reported at the market rate, whereas the disclosures included in the statement of accounts reflect the reborrowing rate.

Note 28 – Cash flow statement financing activities

The disclosure included within note 28 to the financial statements has the repayment of borrowings and the receipt of cash from new borrowings as a net figure rather than being presented gross.

HRA statement and notes consistency

The depreciation and impairment figure reported on the HRA statement does not clearly link to the notes that it is cross referenced to. The disclosure in note 5 should be clarified such that the HRA statement and notes are consistent.

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.
Fees	Details of proposed fees for audit and non-audit services performed for the period have been presented separately below.
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.

The professional fees expected to be charged by Deloitte in the period from 1 April 2019 to 31 March 2021 are as follows:

	2020/21	2019/20
	£	£
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment *	44,959	44,959
Total audit	44,959	44,959
Total fees	44,959	44,959

* In line with PSAA correspondence that scale fees should be negotiated by individual s151 officers based on the individual circumstances of each body. There will be additional fees in 2020/21 in respect of the new Value for Money standard. Both 2019/20 and 2020/21 will also include additional fees in respect of work carried out in relation to objections received to the accounts.

Our other responsibilities explained

Fraud responsibilities and representations



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the Audit Committee to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the Council.

We have also asked the Audit Committee to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified the risk of fraud in the classification of covid-19 grants and management override of controls as a significant audit risk.

During course of our audit, we have had discussions with management, those charged with governance and Internal Audit. In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Audit Committee on the process for identifying, evaluating and managing the system of internal financial control.

We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

Concerns:

From the procedures we have performed, we have nothing to report.



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