



Report to the Audit Committee for the year ending  
31 March 2020

July 2021

# Contents

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## 01 Our report

Introduction	3
Responsibilities of the Audit Committee	5
Your control environment	6
Our audit explained	7
Significant risks	11
Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council’s use of resources	16
Your control environment and findings	17
Our audit report	20
Other matters	21
Maintaining audit quality	25
Purpose of our report and responsibility statement	26

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## 02 Appendices

Audit adjustments	28
Fraud responsibilities and representations	29
Independence and fees	30
Our approach to quality	31

# Introduction

## The key messages in this report

I have pleasure in presenting our update report to the Audit Committee (the Committee) of Lancaster City Council (the Council) for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the committee in March 2020.

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.

### Status of the audit

Our audit is in progress at the date of issue of this report with the following key matters still outstanding:

- Prior year adjustment audit work and review;
- Reconciliation of the data provided in support of our journals testing to the general ledger;
- Conclusion of our work in respect of the authority's arrangements to secure value for money;
- Finalisation and review of PPE testing including queries on how the council dwelling revaluations have been reflected in the fixed asset register and accounts;
- Receipt of certain evidence pertaining to the grant funding utilised in the development of the Luneside East site;
- Review of events since 31 March 2020 up to signing of accounts;
- Finalisation of the Statement of Accounts;
- Completion of internal quality assurance procedures including clearance of a number of remaining review points; and
- Receipt of signed management representation letter.

We have included a section in this report providing observations arising from the work we have so far carried out on the areas of significant risk as reported to you in our audit planning report.

We will provide an oral update on these matters including an update regarding the status of the audit at the meeting.

### Conclusions from our testing

- Our audit work is ongoing in the areas listed above.
- We have summarised the uncorrected audit adjustments on page 28.
- 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.
- Our audit report will include an "Emphasis of Matter" paragraph regarding the material uncertainty over property valuations, including assets held within the Lancashire Pension Fund, discussed further on page 13.
- We have considered the impact of the Covid-19 pandemic on our work – we include details on pages 8 to 10. Further details are included in our work on the property valuations, where management's internal valuer identified a material valuation uncertainty. This is common to all valuations completed as at 31 March 2020 across the sector. This wording is reflected in our draft auditor's report. We did not identify any new financial statement or value for money significant risks as a result of the impact of the pandemic.

# Introduction

## The key messages in this report (continued)

<b>Conclusions from our testing (continued)</b>	<ul style="list-style-type: none"><li>• We have reviewed the internal audit reports relating to the financial year to inform our risk assessment, and have not placed any reliance on their work.</li><li>• We have raised some control recommendations on pages 17 to 19.</li></ul>
<b>Financial Sustainability and Value for Money</b>	<ul style="list-style-type: none"><li>• In the Statements submitted to audit CIES, the Council reported an accounting surplus of £5.8m for the year (2018/19: deficit of £10.04m) which is due in part to an actuarial gain on the pension liability of £8.9m (2018/19: £3.0m) and gains on revaluation of fixed assets of £3.4m (2018/19: £3.6m). At the provision of service line the Council showed a net deficit of £6.5m (2018/19: deficit of £16.7m). In the Statements submitted to audit the Council had usable reserves of £33.9m (31 March 2019: £33.4m) and unusable reserves of £134.9m (31 March 2019: £129.6m).</li><li>• We did not identify any significant risks related to Value for Money and we do not anticipate reporting any matters within our audit report in respect of the Council's arrangements for securing the economy, efficiency and effectiveness of the use of resources.</li></ul>
<b>Narrative Report &amp; Annual Governance Statement</b>	<ul style="list-style-type: none"><li>• We have reviewed the Council's Narrative Report &amp; Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work.</li><li>• At the date of this report, we have no significant matters to raise with you in respect of the Narrative Report, and understand our proposed changes will be made by management.</li></ul>
<b>Duties as public auditor</b>	<ul style="list-style-type: none"><li>• We received two formal objections from local electors in respect of these financial statements. We have determined that the matters raised did not merit the issuance of a Public Interest Report and have communicated this fact, together with our Statement of Reasons. Further details are set out on pages 22-24.</li><li>• We have not identified any other matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.</li></ul>
<b>Whole of Government Accounts</b>	<ul style="list-style-type: none"><li>• The Council is below the threshold for WGA reporting.</li></ul>

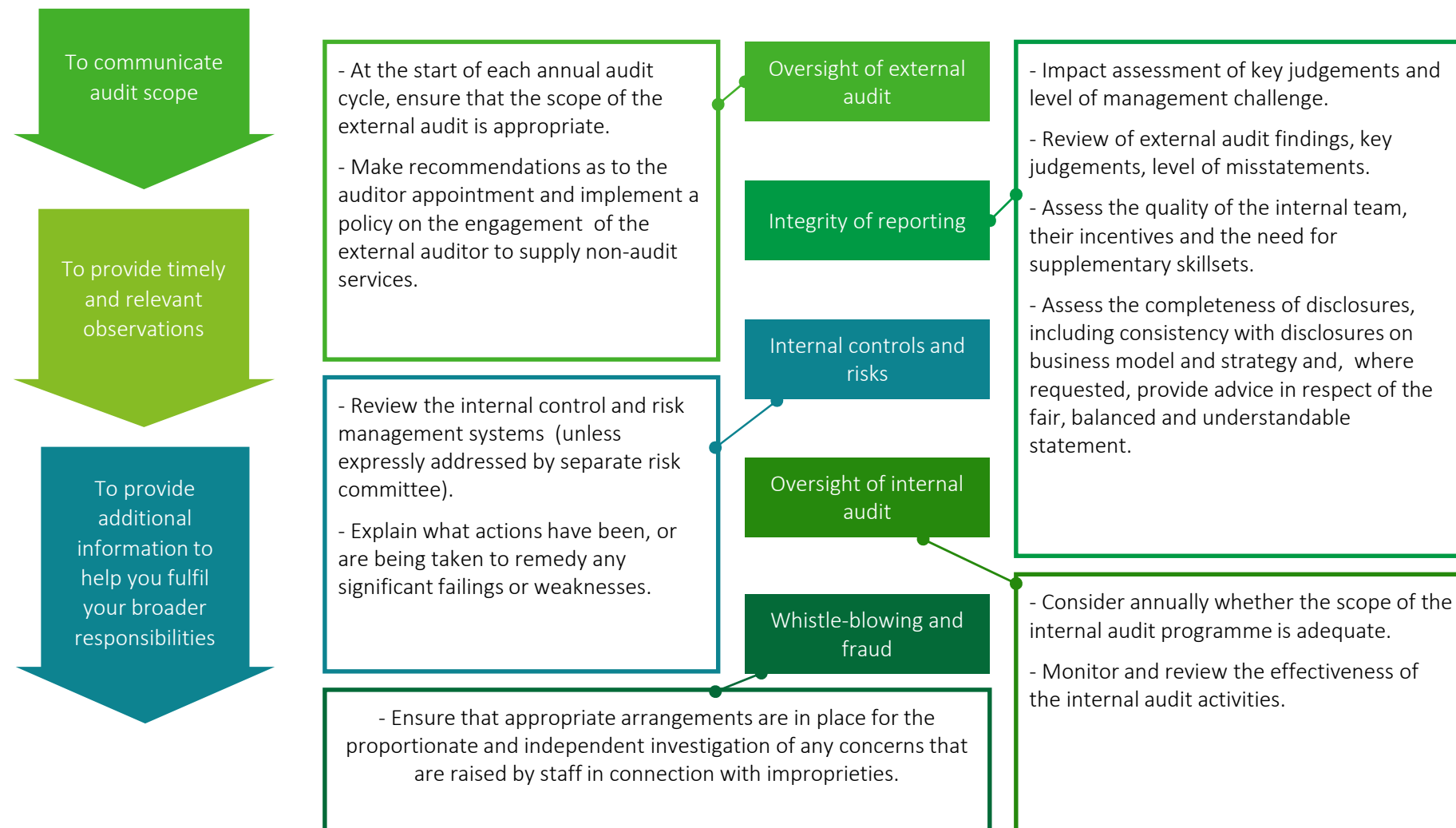
Paul Hewitson  
Audit Director

# Responsibilities of the Audit Committee

## Helping you fulfil your responsibilities

### Why do we interact with the Audit Committee?

As a result of regulatory change in recent years, the role of an Audit Committee has significantly expanded. We set out here a summary of the core areas of Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.



# Your control environment

## What we consider when we plan the audit

We expect management and those charged with governance to recognise the importance of a strong control environment and take proactive steps to deal with deficiencies identified on a timely basis.

### Responsibilities of management

Auditing standards require us to only accept or continue with an audit engagement when the preconditions for an audit are present. These preconditions include obtaining the agreement of management and those charged with governance that they acknowledge and understand their responsibilities for, amongst other things, internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Responsibilities of the Committee

As explained further in the Responsibilities of the Audit Committee slide, on page 5, the Committee is responsible for:

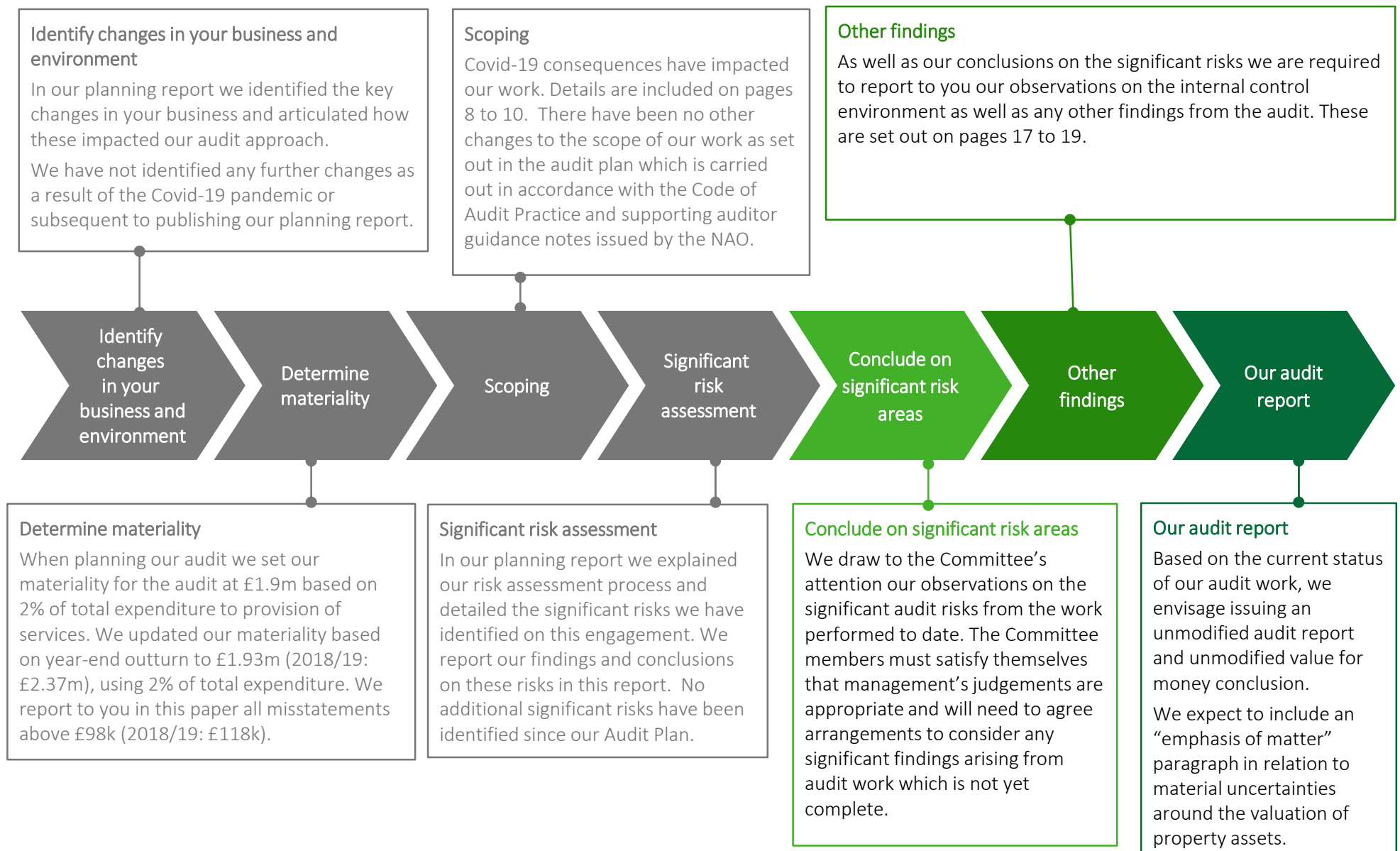
- Reviewing the internal control and risk management systems (unless expressly addressed by separate risk committee).
- Explaining what actions have been, or are being taken to remedy any significant failings or weaknesses.

As stakeholders tell us that they wish to understand how external audit challenges and responds to the quality of an entity’s control environment, we are seeking to enhance how we plan and report on the results of the audit in response. It is intended that going forward we will look to place an increased focus on how the control environment impacts the audit, from our initial risk assessment, to our testing approach and how we report on misstatements and control deficiencies.

<b>Reliance on controls</b>	In future, we will seek to explore the potential to rely on the most important controls, particularly IT controls, that are relevant to critical business processes. In accordance with forthcoming revisions to ISAs, we will assess inherent risk and control risk associated with accounting estimates, and seek to test controls relevant to key estimates.
<b>Performance materiality</b>	We set performance materiality as a percentage of materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed materiality. We determine performance materiality, with reference to factors such as the quality of the control environment and the historical error rate.

# Our audit explained

We tailor our audit to your organisation



# Our audit explained (continued)

## Covid-19 pandemic and its impact on our audit.

### Requirements

CIPFA has issued guidance highlighting the importance of considering the impact of Covid-19 in preparation of the 2019/20 financial statements, including communicating risks and governance impacts in narrative reporting. This is consistent with the Financial Reporting Council’s guidance to organisations on the importance of communicating the impact of Covid-19 and related uncertainties, including their impact on resilience and going concern assessments.

Entity-specific explanations of the current and expected effects of Covid-19 and the Council’s plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation.

As well as the effects upon reserves, financial performance and financial position, examples of areas highlighted by CIPFA include the impact on service provision, changes to the workforce and how they are deployed, impacts upon the supply chain, cash flow management, and plans for recovery. Risks highlighted include those relating to subsidiaries and investments, capital programmes, and resilience of the community including partner organisations and charities.

### Actions

A thorough assessment of the current and potential future effects of the Covid-19 pandemic is required including:

- A detailed analysis across the Council’s operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position and reserves;
- The economic scenario or scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios);
- Any material uncertainties relating to the Council’s financial position, the financial sustainability of the Council, and the potential requirement for a section 114 notice; and
- The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible.

Impact on the Council	Impact on annual report and financial statements	Impact on our audit
We have considered the key impacts on the business such as: <ul style="list-style-type: none"><li>• Interruptions to service provision</li><li>• Supply chain disruptions</li><li>• Unavailability of personnel</li><li>• Reductions in income</li><li>• The closure of facilities and premises</li></ul>	We have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next pages including: <ul style="list-style-type: none"><li>• Impact on property, plant and equipment</li><li>• Valuation of commercial or investment properties</li><li>• Impact on pension fund investment measurement and impairment</li><li>• Financial sustainability assessment (page 16)</li><li>• Narrative reporting</li><li>• Allowance for expected credit losses</li></ul>	We have considered the impact on the audit including: <ul style="list-style-type: none"><li>• Resource planning</li><li>• Timetable of the audit</li><li>• Impact on our risk assessment</li><li>• Logistics including meetings with entity personnel</li></ul>



# Our audit explained (continued)

Covid-19 pandemic and its impact on our audit (continued)		
	Potential impact on annual report and financial statements	Audit conclusions
Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors has issued a practice alert, as a result of which valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This has impacted the Council and requires specific disclosure in the financial statements.	<p>The Council has considered its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations the Council considered with their valuers the impact that Covid-19 has had on current value. The Council also considered whether there are any indications of impairment of assets requiring adjustment at 31 March 2020.</p> <p>The Lancashire County Pension Fund also included a material valuation uncertainty in respect of direct and indirect property holdings in the pension fund.</p> <p>We understand that the Council is disclosing the material uncertainty in the updated accounts and this leads to an Emphasis of Matter in our audit opinion.</p>
Impact on pension fund investment measurement	As a result of the Covid-19 pandemic pension fund investments have been subject to volatility.	We have engaged with the Lancashire County Pension Fund auditor to not only gather information for year-end measurements but to also understand any estimation techniques and any changes to those techniques that may be needed to measure the financial instruments. Where such volatility exists it may mean that the inputs used in the fair value measurement may change and may require a change of measurement technique, and consideration of the level of uncertainty in valuations where there is significantly more estimation.
Expected credit losses	The Council has considered the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.	No issues in relation to this have arisen from our audit work.

# Our audit explained (continued)

Covid-19 pandemic and its impact on our audit (continued)		
	Potential impact on annual report and financial statements	Audit conclusions
Covid-19 related income received pre year end	<ul style="list-style-type: none"> <li>There was one main receipt of income related to Covid-19 that was received pre 31 March 2020: <ul style="list-style-type: none"> <li><b>Covid-19 LA Support grant.</b> This was the first tranche of £1.6bn passed out to Local Authorities by MCHLG on March 27 2020. Lancaster City Council received £101k. This grant was not ring-fenced and was without conditions and therefore should be recognised in income with any unspent amounts carried in reserves.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>We note that after discussion and reference to guidance these have been treated correctly in the statement of accounts.</li> <li>The remaining Covid-19 related income receipts received after the year end will be considered as part of the 2020/21 audit.</li> </ul>
Narrative and other reporting issues	<p>The following areas need to be considered by local authorities as having being impacted by the Covid-19 pandemic.</p> <ul style="list-style-type: none"> <li>Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability.</li> <li>Reporting judgements and estimation uncertainty; the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities</li> </ul>	<p>We note that the narrative report adequately discloses matters related to Covid-19, including risks, potential impacts and other issues. The report is compliant with the guidance in this area.</p>

# Significant risks

## Dashboard

Risk	Fraud risk	Planned approach to controls	Controls conclusion	Consistency of judgements with Deloitte’s expectations	Page no.
Completeness and cut-off of service line expenditure			Satisfactory		12
Property Valuations			Satisfactory		13
Management override of controls			Area for improvement identified		15

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

### Controls approach adopted



Assess design & implementation

# Significant risks (continued)

## Completeness and cut-off of service line expenditure

### Risk identified

The UK auditing standards presume a risk of revenue recognition due to fraud that can be rebutted by the auditor. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness and cut-off of service line expenditure. We identify this as expenditure excluding payroll costs, depreciation and amortisation and expenditure which is grant backed (such as Housing Benefit expenditure).

There is an inherent fraud risk associated with the recording of expenditure in order for the Council to report a more favourable year-end position.

There is a risk that the Council may materially misstate expenditure through manipulating the year end position in order to report a more favourable outturn.

### Deloitte response

- We have obtained an understanding of the design and implementation of the key controls in place in relation to recording completeness and cut-off of service line expenditure (excluding payroll, depreciation and amortisation, and expenditure which is grant backed);
- We performed focused testing in relation to the completeness and cut-off of service line expenditure (excluding the areas set out above); and
- We reviewed and challenged the assumptions made in relation to year-end estimates and judgements to assess completeness and accuracy of recorded service line expenditure.

### Deloitte view

Based on the work completed to date, we have no concerns that the accounts are materially misstated in respect of expenditure cut-off.

# Significant risks (continued)

## Valuation of property assets

### Risk identified

The 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 three year cycle. As a result of this, however, individual assets may not be revalued for two years.

There is therefore a risk that the value of property assets materially differ from the year end fair value.

The Council held £239m of Property, Plant and Equipment (PPE) and £28m of Investment Property at 31 March 2020. The figures involved are therefore material. Revaluation adjustments in 2020 per the draft statements presented for audit totalled an downward revaluation of £112k for PPE and a fair value gain of £18k on investment property.

### Deloitte response

- We have obtained an understanding of 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 assessed the Council's response to the findings raised in the 2019 audit;
- We reviewed a sample of revaluations performed in the year, assessed whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals;
- We reviewed the approach used by the Council to assess the risk that assets not subject to revaluation are materially misstated;
- We used our valuation specialists, Deloitte Real Estate, to support our review and challenge the appropriateness of the Council's assumptions on its assets values between April 2019 and year end; and
- We tested a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts.

### Deloitte view

Whilst our work is nearing completion it currently remains under review. We have queries outstanding with the Council around how the Council Dwelling revaluation has been reflected in the fixed asset register and accounts.

Our testing of valuation identified that the Giant Axe Football stadium, home to Lancaster City Football Club and carried in the balance sheet as an investment property, was significantly overstated. Investment property should be carried at a value that reflects the future revenues that are expected to be generated by the asset however, in the case of Giant Axe, this was valued at Depreciated Replacement Cost; a treatment more properly applied to assets held for service delivery.

The valuation error was raised with the Authority team a correction has been made to the financial statements which reduces the valuation of this asset by £2.4m. Examination of the portfolio of investment properties indicated that there were no wider implications of this error.

In addition to this noted error we have also raised some further control recommendations concerning the production of the asset valuations.

# Significant risks (continued)

## Valuation of property assets – Material Uncertainty due to Covid-19

### Material Uncertainty due to Covid-19

The Council's valuer has included disclosures in relation to Covid-19 in their report including the extracts below:

*"The outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020. This has impacted global financial markets and led to severe travel restrictions being implemented by many countries.*

*Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuations than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, we recommend that you keep this valuation under frequent review."*

This is a common feature of valuation reports prepared to 31 March 2020.

### Impact on Statement of Accounts

The Council is required to disclose the existence of this material uncertainty in the Statement of Accounts. We have discussed with management regarding the need to include a detailed disclosure within the accounts, and appropriate disclosure has now been included.

### Impact on Audit Opinion

An "emphasis of matter" is required to be included in our audit opinion to draw attention to management's disclosure:

*"We draw attention to Notes 13 and 15 which describe the effects of the uncertainties created by the coronavirus (Covid-19) pandemic on the valuation of the Authority's property portfolio and property investments held within the pension scheme.*

*As noted by the Authority's valuer, and the valuer engaged by the Administering Authority of the pension scheme, the pandemic has caused extensive disruptions to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the fair value of the property portfolio and property investments held within the pension scheme at the balance sheet date.*

*Our opinion is not modified in respect of these matters."*

### Deloitte view

We have made a recommendation to management as part of our comments on the financial statements regarding their disclosure on Covid-19. We will confirm that appropriate disclosure of the material uncertainty is included within notes 5, 13, 15, and 39 prior to finalisation.

# Significant 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, (completeness and cut-off of service line expenditure 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 judgment to influence the financial statements.

### Deloitte Response

#### Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

#### Journals

We obtained an understanding of the design and implementation testing of the controls in place for journal entries and have identified an opportunity for improvement to the control environment implemented by management.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

Our work is ongoing to test the completeness and accuracy of the population we have tested.

#### Accounting estimates

We reviewed the accounting estimates for biases that could result in material misstatements due to fraud. We note from our testing to date that overall the areas requiring a higher degree of estimation in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

### Deloitte view

We have not identified any significant bias in the key judgements made by management.

Our work identified a substantial population of journals which had been self authorised, that is, the normal policy of subjecting all management journals to an independent review prior to recording the impact in the general ledger had been bypassed. The existence of the journals was raised with management who undertook a retrospective remedial review of these journal to ensure that no invalid journals had been processed, bypassing the normal control. We are satisfied that the remedial review has been completed correctly and no invalid journals were identified.

Our work on management override of controls remains ongoing in so much as there remains unreconciled difference between the General Ledgers provided to support our audit and the data provided to support our evaluation of journals. An explanation has been received from management however work remains ongoing to determine whether this adequately explains the observed differences.

# Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources

## Background

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work. We note that the NAO guidance indicates a low likelihood that Covid-19 forms a risk area impacting the assessment of arrangements for 2019/20. Rather this will form part of the risk assessment and evaluation for 2020/21. The response to Covid-19 is described as an "emerging risk" in this guidance (rather than a significant risk) unless clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the 2019/20 financial year.

## Our risk assessment

As part of our planning procedures we did not identify any significant risks or areas of focus in respect of the Council's use of resources.

As part of our year-end audit procedures we did not identify anything of significance and we did not identify any areas of risk from our review of post year-end events.

### Deloitte view

Our work on Value for Money is ongoing.








# Your control environment and findings

## Control insights and areas for management focus

Low Priority





Medium Priority

High Priority

Area of observation	Deloitte recommendation	Risk rating	Management response and remediation plan
IT environment observations	In the prior year we identified a number of minor observations regarding the IT environment which we communicated in our previous report. A number of our observations remain unresolved, and we recommend the authority continues to monitor progress against them.		Management will consider the implications of the recommendations and formulate an appropriate response following conclusion of the audit
Bank reconciliations	Each bank account should be reconciled separately rather than to have 9 control accounts reconciled against 7 bank accounts.		
	There should be a one-to-one relationship between control account and bank account or, there should be a clear exclusive relationship between one or more control account and one (or more) bank account.		
	Deloitte have identified a number of suspense items totalling £97k held on the bank rec. it is noted that the correct treatment is to post these to the ledger (Dr Cash, Cr Suspense account) until the transaction is otherwise resolved.		
Procurement card reconciliation schedule not maintained.	A formal review process should be maintained for this reconciliation and should be signed by the reviewer.		
Segregation of duties in the context of management journals.	<p>The General Ledger system does not actively prevent the posting of self reviewed journals; as part of our testing of management override of controls we identified just over 300 journals which had been written and posted without being reviewed by an independent officer of the Authority. We understand that this volume of self reviewed journals is unusual and is a consequence of the remote working environment however it is our judgement that this represented an unreasonable deterioration in the framework of control. At our request management undertook a retrospective review of the self reviewed journals.</p> <p>We recommend that management implement a control whereby the accounting system requires separate preparer and reviewer approval. If this is not possible, all journals should be independently reviewed prior to posting and with a further monthly review of all postings to identify any self authorised journals for retrospective review.</p>		

# Your control environment and findings (continued)

## Control insights and areas for management focus

Area of observation	Deloitte recommendation	Risk rating	Management response and remediation plan
Reconciliation Schedule not maintained.	Reconciliation schedule is not maintained to monitor the completion and review of monthly reconciliations. Recommended to maintain a reconciliation schedule to show all reconciliations along with who has completed and reviewed along with the date this occurred.		Management will consider the implications of the recommendations and formulate an appropriate response following conclusion of the audit
Redundancy Payment Calculations	One of our samples for redundancy payment calculations highlighted that the statutory redundancy cap was not correctly applied, from £508/week for the 2018/19 period to the new cap of £525/week for 2019/20. The individual we tested was underpaid by £442. Therefore, this insight suggests that there should be measures made to ensure that the cap is updated every April. The total population of redundancy payments in the year totalled only £118k and hence no wider investigation was undertaken		
Related Party Note	<p>From a review of the Related Parties Note it was evident that no transactions had been recorded in the note, usually in the format of debtor/creditor and income/expenditure. When queried the S151 officer stated that only material transactions are included within the related party note.</p> <p>IAS24 states that a related party transaction is material if it is material to either party; in the context of related parties, particularly parties related to Elected Members we consider it good practice to apply a low threshold for reporting of transactions and balances in the interests of public transparency and accountability and so we recommend that the Council considers how greater transparency and scrutiny could be brought to bear on the identified transactions and balances.</p>		
Timely review of designation of Unreasonably Persistent Complainant (UPC)	Discussion with the Information Governance and Data Protection Manager confirms that the review of the objector's status as unreasonably persistent is overdue. Whilst designated as such the objector's emails will not be delivered to officers of the Authority unless addressed to the customer relations email box or to the Chief Executive. Care should be taken to ensure that designation as Unreasonably Persistent Complainant is reviewed on a timely basis, in accordance with the policy, and is maintained only where merited under the Authority policy.		

# Your control environment and findings (continued)






## Control insights and areas for management focus

Area of observation	Deloitte recommendation	Risk rating	Management response and remediation plan
Monitoring of ChiefExec@Lancaster mailbox during inspection period	<p>We recommend that the central mailbox UPCs are directed to is monitored during the accounts inspection period, so that any queries on the Statement of Accounts raised to this mailbox will be picked up.</p> <p>We further recommend that, in future communications with individuals to be designated as UPC, that the need to email directly to the designated email box for matters connected to objections to the accounts is clearly set out. We also recommend that confirmation of this fact is communicated to all persons for whom there is an extant UPC / Email block in place.</p>	●	Management will consider the implications of the recommendations and formulate an appropriate response following conclusion of the audit
Revaluation documentation	When performing the revaluation exercise, the in-house valuers should keep evidence of their discussions and meetings; i.e., diary invites, email summaries and comments/annotations on reports.	●	
Valuation of assets	<p>In addition to the observations set out in our letter of 23 March 2021 which we understand are in the process of being addressed our valuations experts make the following recommendations:</p> <ul style="list-style-type: none"> <li>• The instructions issued to the valuations team should reference the requirement to the fair value input hierarchy as set out in IFRS13</li> <li>• The terms should more clearly set out the expected form and content of the resulting report</li> <li>• The final report should include the categorization of assets and also, where applicable, an opinion on the significant components of the assets</li> <li>• The approach to incorporating Stamp Duty Land Taxation (SDLT) should be made more consistent with the function of SDLT and across the portfolio generally.</li> </ul>	●	

# Our audit report

## Matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

				
<b>Our opinion on the financial statements</b> Based on our work completed to date it is expected that our opinion on the financial statements will be unmodified.	<b>Material uncertainty related to going concern</b> We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.	<b>Emphasis of matter and other matter paragraphs</b> We include details on the emphasis of matter paragraph in relation to property valuations on page 13 of this report.  There are no other 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.	<b>Our value for money conclusion</b> We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).  Based on our work to date, our conclusion on the Council's arrangements is unmodified.	<b>Other reporting responsibilities</b> The Narrative Report is reviewed in its entirety for material consistency with the financial statements and the audit work performed and to ensure that they are fair, balanced and reasonable.  We are awaiting an updated set of accounts to review, however, based on our work to date, our conclusion in this area is satisfactory.

# Other matters

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"><li>- Organisational overview and external environment;</li><li>- Governance;</li><li>- Operational Model;</li><li>- Risks and opportunities;</li><li>- Strategy and resource allocation;</li><li>- Performance;</li><li>- Outlook; and</li><li>- Basis of preparation</li><li>- Future sustainability and risks to this posed by Covid-19.</li></ul>	<p>We have assessed whether the information given in the Narrative Report meets the disclosure requirements set out in guidance, is misleading, or is inconsistent with other information from our audit.</p> <p>We have considered the sustainability narrative including the requirement to discuss and evaluate the impact of Covid-19 within this assessment. We have concluded satisfactorily on this matter.</p> <p>Our assessment of the impact of Covid-19 can be seen from pages 8 to 10.</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 guidance, is misleading, or is inconsistent with other information from our audit.</p>

# 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 2019/20 Statement of Accounts Deloitte received two objections 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.

# Other matters

## Objection to Accounts (continued)

### Objection 1

The objector provided a wide ranging objection covering setting out the history of the Luneside East Development and the Authority's dealings with Thomas Newall Limited, the entity from which the Luneside East site was compulsorily purchased in 2006, whose central contention was that the Luneside East Development bears no resemblance to the Urban Village for which the Authority acquired the site.

The objection was judged eligible as it met the requirements summarised on page 22 and so we considered whether to accept the objection or not.

The matters complained of, in many cases, had been litigated previously and was in parts subject to an earlier objection raised with KPMG which was not upheld. The residual matters relevant to the Statement of Accounts 2019/20, being the only year for which the Audit Certificate has not been issued and, therefore, the only element which was eligible for consideration, concerned the disclosure contained within Note 42 of the financial statements and specifically that the Draft Statement of Accounts failed to disclose the fact that R. Gardener & Company (Lancaster) Ltd had purchased the rights previously held by Thomas Newall Ltd and brought a claim for Compulsory Purchase Order Compensation before the Land Tribunal.

We concluded that the disclosure in the draft Statement of Accounts was not wholly accurate it did not represent the known position at the time the Statements were drafted. We have requested that management make amendments to Note 42 making it clear that the rights previously assigned to Thomas Newall Ltd have been assigned to R. Gardener & Company (Lancaster) Ltd, that a case was brought against the Authority in the Land Tribunal and that the case was dismissed on 23 November 2020. In view of the fact that only matters relating to years for audit has not been concluded can be considered, the observation that the active case was dismissed on 23 November and the fact that the Contingent Liability was already within the scope of our planned audit procedures we did not judge that it would be proportionate for us to issue a report in the Public Interest on this matter consequently we wrote to the objector on 17 June 2021 confirming that we would not be accepting the objection and setting out our reasons.

We have agreed with the S151 officer that the necessary changes to Note 41 will be made prior to finalisation of audit and signing of the accounts.

### Status

Subsequent to our issuing of the Statement of Reasons to the objector we have received notice that the objector intends to complain about our handling of their objection. This is being handled by our complaints team.

# Other matters

## Objection to Accounts (continued)

### Objection 2

The resident provided an objection on 12 October 2020 in which he referenced an earlier request put to the S151 Officer of the Authority. The earlier communication principally referred to Note 42 Contingent Liabilities and the omission of reference to a potential clawback by the European Regional Development Fund of monies granted to the Authority in support of the Luneside East Development.

This liability to clawback was included in the 2018/19 Contingent Liabilities Note however was not included in the draft Statement of Accounts relating to the year ended 31 March 2020.

Having made appropriate enquiries we determined that the objection was eligible under the terms of AGN04. However owing to the fact that the substance of the objection, being the content of the Contingent Liabilities note, was already within the scope of our audit we concluded that it was unlikely to be proportionate to issue a report in the public interest on this matter (assuming one were to be warranted).

As we note on page 3 of this report we are awaiting certain documentation from the Authority relating to the grant claims in respect of the Luneside East Development which we understand are in storage within the Finance Department has been inaccessible since the response to the Covid pandemic resulted in the finance team working remotely.

### Status

Subsequent to our issuing of the Statement of Reasons to the objector we have an interim complaint about our handling of their objection. This is being handled by our complaints team.



# Maintaining audit quality

## Responding to challenges in the current audit market

This is a time of intense scrutiny for our profession with questions over the role of auditors, market choice and the provision of non-audit services by an audit firm. We welcome the debate and are engaging fully with all parties who have an interest in the current audit market reform initiatives, so that our profession, our people, our clients and most importantly, the public interest, are served to the highest standards of audit quality and independence.

The role of audit	<ul style="list-style-type: none"><li>• Public confidence in audit has weakened over recent years and the expectation gap has widened with differences between what an audit does and what people think it should do (largely in areas of internal controls, fraud, front half assurance and long term viability).</li><li>• Deloitte fully supports an independent review into the role of auditors.</li><li>• The Government's Brydon Review will consider UK audit standards and how audits should evolve.</li></ul>
Would it be better to have audit only firms?	<ul style="list-style-type: none"><li>• Deloitte believes that multidisciplinary firms have more knowledge, greater access to technology and a deeper talent pool. The specialist input from industry, valuation, controls, pensions, cyber, solvency, IT and tax services are critical to an effective audit.</li><li>• Our investment in audit innovation, training and technology is greater because of the multidisciplinary model.</li></ul>
Is the current audit market uncompetitive?	<ul style="list-style-type: none"><li>• We recognise that the competition for large, complex clients is fierce, but we wholeheartedly support greater choice being available to stakeholders .</li><li>• There are barriers to entry in the listed market that are significant including the required global reach, unlimited liability, and the high cost of tendering.</li><li>• The audit profession has engaged with the Competition and Markets Council with ideas on how to provide greater choice in the market, and responded to the CMA's suggested market remedies.</li></ul>
Independence and conflicts from other services	<ul style="list-style-type: none"><li>• Legislation and the FRC's Ethical Standard restrict the services we may provide to audit clients.</li><li>• Deloitte invests heavily in systems, processes and people to check for potential conflicts.</li><li>• We have governance in place to assess any areas of potential conflict, including where required to protect the public interest.</li><li>• Fees for non-audit services to audit clients have fallen since 2008 (17% to 7.3% of firm revenue).</li></ul>
Deloitte	<ul style="list-style-type: none"><li>• Deloitte and Audit Service Line leadership are happy to meet the Board and management of our clients with respect to this important debate. We reaffirm our commitment to quality, independence and upholding the public interest</li><li>• Our Impact Report and Transparency Report are available on our website <a href="https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html">https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html</a></li><li>• Our response to the latest AQR report is on page 28.</li></ul>

# 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 260 (UK) 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 Narrative Report.

### 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 Council.

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 the other procedures performed in fulfilling our audit plan.

### 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 and again in this report.

This report has been prepared for the Audit Committee and 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.

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

**Deloitte LLP**  
Newcastle | July 2021

# 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, when taken together with the impact of prior year unadjusted errors, result in a £0.4m misstatement to net assets.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) reserves £m
<b>Misstatements identified in current year</b>				
"Goodwin" impact on the pension liability	[1]	0.2	(0.2)	
<b>Impact of Misstatements identified in prior year</b>				
Extrapolation of the error noted in the transposition of the valuation certificates into the financial statements			(0.2)	0.2
Estimated Overstatement to the opening bad debt provision		0.1		(0.1)
Extrapolated error relating to missed accruals		(0.3)		0.3
<b>Total</b>		<b>0.0</b>	<b>(0.4)</b>	<b>0.4</b>

[1] The pension scheme actuary has made no allowance for the impact of a legal case "Goodwin" on the pension liability, on the basis that it is not material. We estimate the impact of the Goodwin judgement to be to increase the liabilities by 0.1%, or £0.2m.

# Fraud responsibilities and representations

## Responsibilities explained



### 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 Council 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 have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Council.

We have also asked the Council 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 property valuations, completeness of expenditure and management override of controls as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance including the Head of 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 on the process for identifying, evaluating and managing the system of internal financial control.

### Concerns:

No significant concerns have been identified from our work.

# 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 that we comply with FRC Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	The audit fee for 2019/20, in line with the scale fee provided PSAA, is £44,959 (2018/19: £44,959). We have incurred additional costs in responding to the two objections received in relation to 2019/20. We have also incurred additional costs in concluding the audit due to the level of issues identified. Once the full extent of these costs are known, we will communicate and agree additional fees with management and the Audit Committee.
Non-audit services	In our opinion there are no inconsistencies between FRC’s Ethical Standards for Auditors 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	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>

# Our approach to quality

## AQR team report and findings

Audit quality remains our number one priority and we have a relentless commitment to it. We continue to invest in and enhance our Audit Quality Monitoring and Measuring programme.

In July 2020 the Financial Reporting Council (“FRC”) issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review (“AQR”) team for the 2019/20 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

We are pleased with our results for the inspections of FTSE 350 entities achieving 90% assessed as good or needing limited improvement, which included some of our highest risk audits. Our objective is for 100% of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions.

We are also pleased to see the impact of our previous actions on prior year adjustments is reflected in the results of current year inspections with no findings in this areas. In addition the FRC identified good practice examples including in: risk assessment, group oversight, our comprehensive IFRS9 expected credit loss audit programme and our audit committee reporting.

Embedding a culture of challenge in our audit practice underpins the key pillars of our audit strategy. We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website.

<https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

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