

The Audit Findings for Preston City Council

Year ended 31 March 2019

25 July 2019



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

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Preston City Council (the Council) and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our final accounts audit work was completed on site during June and July 2019. Our findings are summarised on pages 4 to 21.</p> <p>Two adjustments to the primary financial statements have been made by management:</p> <ul style="list-style-type: none">• to include the impact of a national legal case where events occurring in June 2019 altered the Council's initial accounting treatment. This resulted in a compensating balance sheet classification adjustment of £1.17m in relation to the Net Pension liability and the Pension Reserve balances. There is no impact on the useable reserves of the Council as a result of this adjustment.• an adjustment to the accounting treatment for the Parish Council element of the Community Infrastructure Levy. The adjustment has resulted in an overall decrease by £72k in income reported in the CI&E, made up of an additional £290k reported in 2018/19 and a decrease of £362k reported in prior years. <p>Other amendments identified relate to minor disclosure changes and were adjusted by management.</p> <p>We have not raised any recommendations for management as a result of our audit work.</p> <p>Our work is substantially complete and there are no matters of which we are currently aware that would require modification of our audit opinion or material changes to the financial statements, subject to the satisfactory resolution of the matters listed on page 4.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unqualified. A draft of the proposed audit opinion is detailed at Appendix C.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Preston City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C.</p> <p>Our findings are summarised on pages 16 to 19</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and• To certify the closure of the audit.	<p>We have not exercised any of our additional statutory powers or duties</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be presented to the Audit Committee on 29 July 2019.

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

Audit approach

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

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

We have not had to alter or change our audit plan, as communicated to you on 10 January 2019.

Closedown arrangements

The financial statements were received on time and published in line within the statutory deadline. The financial statements were prepared to a good standard and there is an appropriate quality review process in place. Working papers were available before the start of the audit and were of an appropriate quality. The responses to our audit samples and queries were comprehensive and timely.

Early work was undertaken by officers to review the new accounting standards introduced during 2018/19 for International Financial Reporting Standards (IFRS) 9 and 15.

Conclusion

We have substantially completed our audit of your financial statements and subject to resolution of outstanding queries, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 29 July 2019, as detailed in Appendix C.

These outstanding items include:

- receipt of management's representation letter;
- reviewing and challenging the valuer's assumptions and methodology used in valuation of property, plant and equipment.
- review of the final set of financial statements;
- completion of our work on some minor disclosure notes;
- updating our post balance sheet review to the date of the audit opinion.

Summary

Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Preston City Council.

	Amount (£)	Factors considered
Materiality for the financial statements	1,691,000	• This equates to 2% of your gross operating expenditure for the year and is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure.
Performance materiality	1,268,000	• Assessed to be 75% of financial statements materiality
Trivial matters	84,550	• This equates to 5% of financial statement materiality

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 Improper revenue recognition</p> <p>The revenue cycle includes fraudulent transactions:</p> <p>Income from fees, charges and other service income.</p>	<p>Auditor commentary</p> <p>There are no changes to our assessment reported in our audit plan.</p> <p>We have</p> <ul style="list-style-type: none"> evaluated the Council's Accounting Policy No 3 'Accounting of Income and Expenditure' and Accounting Policy No. 4 'Revenue Recognition' for appropriateness; gained an understanding of the Council's system for accounting for income from fees, charges and other services; agreed, on a sample basis amounts recognised as income from fees, charges and other services in the financial statements to supporting documentary evidence. <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>2 Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Auditor commentary</p> <p>We carried out the following work:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals analysed the journals listing and determined the criteria for selecting high risk unusual journals tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our audit work has not identified any issues in respect of management override of controls.</p>

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of land and buildings

The Council revalues its land and buildings on a quinquennial basis to ensure that the carrying value is not materially different from fair value. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (2018/19: £73.5m; 2017/18: £72.5m) and the sensitivity of this estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used

We therefore identified valuation of land and buildings, particularly impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

We carried out the following work:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- wrote to the valuer to confirm the basis on which the valuations were carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register
- evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Our audit work confirmed that revaluations were carried out by an appropriate internal expert. We are satisfied that the value of land and buildings not revalued during the year was not materially different to their reported value at 31 March 2019.

Our audit work on the valuation of property, plant and equipment has not identified any significant issues that we need to bring to members attention.

Our work on the estimation process is in the judgements and estimates section on page 10.


Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p data-bbox="78 297 576 318">④ Valuation of pension fund net liability</p> <p data-bbox="151 365 696 472">The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p data-bbox="151 508 696 644">The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£88.1 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p data-bbox="151 679 696 786">We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p data-bbox="712 297 1069 318">We carried out the following work:</p> <ul data-bbox="712 337 1987 893" style="list-style-type: none"> <li data-bbox="712 337 1987 386">• updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; <li data-bbox="712 405 1987 455">• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; <li data-bbox="712 474 1987 524">• assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; <li data-bbox="712 542 1987 592">• assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; <li data-bbox="712 611 1987 661">• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; <li data-bbox="712 679 1987 758">• undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and <li data-bbox="712 776 1987 855">• obtained assurances from the auditor of Lancashire County Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. <li data-bbox="712 873 1987 893">• obtained assurances from PWC in respect of valuation of the pension fund liability valuation by Mercers. <p data-bbox="712 912 1987 1019">We draw your attention to page 9 regarding a national issue relevant to all local authorities - to consider and assess how the result of the McCloud and Sergeant judgements has impacted upon the valuation of the pension fund net liability (and in turn the pension reserve). The McCloud /Sergeant judgements have a direct impact on the Local Government Pension Scheme.</p> <p data-bbox="712 1038 1674 1059">Our audit work has not identified any issues in respect of valuation of net pension liabilities.</p>

Significant findings – other issues

Issue	Commentary															
<p>5 Potential impact of the McCloud Judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but the permission to appeal was unsuccessful. We understand the case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud – Court of Appeal) has implications not just for the firefighters' pension funds, but also for other pension schemes where they have implemented transitional arrangements in changing benefits such as the local government Pension Scheme and Police Pension Scheme.</p>	<p>Management requested an updated estimate from the actuary of the potential impact of the McCloud ruling. This has now been received from Mercers. This indicated an increase in past service costs by £1.729m and actuarial gains by £0.563m and therefore an increase in the net liability of £1.17m:</p> <table border="1" data-bbox="795 354 1375 496"> <thead> <tr> <th></th> <th>£m</th> </tr> </thead> <tbody> <tr> <td>Increase in past service costs</td> <td>1,729</td> </tr> <tr> <td>Increase in actuarial gains</td> <td><u>(0.563)</u></td> </tr> <tr> <td>Increase in net pension liability</td> <td><u>1,166</u></td> </tr> </tbody> </table> <p>The accounts have been amended and we have reviewed the analysis performed by the actuaries, and considered that the approach that has been taken to arrive at this estimate is reasonable.</p>		£m	Increase in past service costs	1,729	Increase in actuarial gains	<u>(0.563)</u>	Increase in net pension liability	<u>1,166</u>							
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Increase in past service costs	1,729															
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Increase in net pension liability	<u>1,166</u>															
<p>6 Accounting for Community Infrastructure Levy (CIL) Income</p> <p>The Council operates a community infrastructure programme as part of the City Deal under The Community Infrastructure Levy Regulations 2010 as amended by The Community Infrastructure Levy (Amendment) Regulations 2013.</p> <p>Under this Instrument the Council charges to and collects from property developers levies for purposes of infrastructure development in the relevant areas. Where applicable, 15% of the levies charged and collected is passed on to the Parish where the development is located. 5% of all levies is retained by the Council to cover administration costs. The rest of the levy collected is paid over to Lancashire County Council as contribution towards the City Deal's infrastructure programme and such contribution is accounted for as REFCUS.</p>	<p>The Council has an agreement to contribute its remaining CIL balances to LCC as part of the CITY Deal project.</p> <p>Whilst the payment to the Parish Councils is made on a cash basis as per The Community Infrastructure Levy (Amendment) Regulations 2013, the Code requires recognition of the income to be made on an accruals basis.</p> <p>Management have processed adjustments to amend prior year and current year recognition of income related to the Parish CIL in the financial statements.</p> <table border="1" data-bbox="795 1011 1649 1200"> <thead> <tr> <th></th> <th>2018/19</th> <th>2017/18</th> </tr> <tr> <th></th> <th>£'000</th> <th>£'000</th> </tr> </thead> <tbody> <tr> <td>Parish CIL Invoiced (accrual basis)</td> <td>74</td> <td>1,262</td> </tr> <tr> <td>Parish CIL paid (cash basis)</td> <td><u>364</u></td> <td><u>900</u></td> </tr> <tr> <td>Net (decrease)/increase in CIL income in CI&E</td> <td><u>290</u></td> <td><u>(362)</u></td> </tr> </tbody> </table> <p>The accounts have been amended and we have reviewed the amended financial statements to ensure proper disclosures have been made.</p>		2018/19	2017/18		£'000	£'000	Parish CIL Invoiced (accrual basis)	74	1,262	Parish CIL paid (cash basis)	<u>364</u>	<u>900</u>	Net (decrease)/increase in CIL income in CI&E	<u>290</u>	<u>(362)</u>
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Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Other Land and Buildings: £46.317m Surplus Assets: Land and Buildings: £2.801m Community Assets: £13.961m Total Land and Building: £63.079m	<p>Land and buildings carrying value totals £63.079m, valued on the basis of current value - existing use value or where this cannot be assessed because there is no market for the subject asset, depreciated replacement cost.</p> <p>The Council has engaged Mr Phillip Moore, Quantity Surveyor, a registered internal valuer to complete the valuation of properties as at 31 March 2019 on a cyclical basis. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. All valuations were carried out internally.</p> <p>20% of total assets were fully revalued and 80% was revalued using a desktop valuation exercise during 2018/19.</p> <p>The total year end valuation of land and buildings was £63.079m, a net increase of £1,171m from 2017/18.</p>	<p>We reviewed the detail of your assessment of the estimate, considering;</p> <ul style="list-style-type: none"> the assessment of management's expert, your internal valuer; the completeness and accuracy of the underlying information used to determine the estimate; the reasonableness of the overall increase in the estimate; and the adequacy of the disclosure of the estimate in the financial statements. <p>There are no issues to raise from the work carried out on the estimate.</p>	 Green

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

Summary of management’s policy	Audit Comments	Assessment																								
<p>Net pension liability – £88.08m</p> <p>The Council’s net pension liability at 31 March 2019 is £88.08m (PY £86.23m) comprising the Local Government Pension Scheme obligations. Liability figures are higher than the previous year mainly due to a general fall in corporate bond yields, the increase in the market expectations of inflation and the impact of the McCloud judgement. Full actuarial valuations are required every three years.</p> <p>The Council uses Mercers to provide actuarial valuations of the Council’s assets and liabilities derived from the Local Government Pension Scheme. The latest full actuarial valuation by Mercers was completed as at 31 March 2016.</p> <p>Mercers Both actuaries use a roll forward approach in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £3.8m (2017/18: £14.266m) net actuarial gain during 2018/19.</p>	<p>We reviewed the detail of your assessment of the estimate, considering;</p> <ul style="list-style-type: none"> the assessment of management’s experts, Mercers; the completeness and accuracy of the underlying information used to determine the estimates; the reasonableness of the Council’s share of the LGPS assets; the reasonableness of the overall increase in the estimates; the adequacy of the disclosure of the estimates in the financial statements. <p>External auditors are provided with assurance in the form of an auditors expert report from PWC to assess the assumptions made by the Actuaries, the table below sets out the key assumptions.</p>	 Green																								
<table border="1"> <thead> <tr> <th data-bbox="841 639 1268 739">Assumption</th> <th data-bbox="1268 639 1498 739">Actuary Value - LGPS</th> <th data-bbox="1498 639 1624 739">Within PwC range</th> <th data-bbox="1624 639 1866 739">Assessment</th> </tr> </thead> <tbody> <tr> <td data-bbox="841 739 1268 789">Discount rate</td> <td data-bbox="1268 739 1498 789">2.4%</td> <td data-bbox="1498 739 1624 789">Yes</td> <td data-bbox="1624 739 1866 789" style="text-align: center;">●</td> </tr> <tr> <td data-bbox="841 789 1268 839">Pension increase rate</td> <td data-bbox="1268 789 1498 839">2.3%</td> <td data-bbox="1498 789 1624 839">Yes</td> <td data-bbox="1624 789 1866 839" style="text-align: center;">●</td> </tr> <tr> <td data-bbox="841 839 1268 889">CP inflation</td> <td data-bbox="1268 839 1498 889">2.2%</td> <td data-bbox="1498 839 1624 889">Yes</td> <td data-bbox="1624 839 1866 889" style="text-align: center;">●</td> </tr> <tr> <td data-bbox="841 889 1268 939">Life expectancy – Males over 65</td> <td data-bbox="1268 889 1498 939">22.8 years</td> <td data-bbox="1498 889 1624 939">Yes</td> <td data-bbox="1624 889 1866 939" style="text-align: center;">●</td> </tr> <tr> <td data-bbox="841 939 1268 1090">Life expectancy – Females over 65</td> <td data-bbox="1268 939 1498 1090">25.5 years</td> <td data-bbox="1498 939 1624 1090">Yes</td> <td data-bbox="1624 939 1866 1090" style="text-align: center;">●</td> </tr> </tbody> </table>			Assumption	Actuary Value - LGPS	Within PwC range	Assessment	Discount rate	2.4%	Yes	●	Pension increase rate	2.3%	Yes	●	CP inflation	2.2%	Yes	●	Life expectancy – Males over 65	22.8 years	Yes	●	Life expectancy – Females over 65	25.5 years	Yes	●
Assumption	Actuary Value - LGPS	Within PwC range	Assessment																							
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Pension increase rate	2.3%	Yes	●																							
CP inflation	2.2%	Yes	●																							
Life expectancy – Males over 65	22.8 years	Yes	●																							
Life expectancy – Females over 65	25.5 years	Yes	●																							

Other than the issue already noted on page 9 regarding the McCloud judgement, there are no further issues to note from the work carried out.

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary
1 Significant events or transactions that occurred during the year	<ul style="list-style-type: none"> The implementation of new accounting standards IFRS9 and IFRS15 from 1 April 2018 were discussed with officers during 2018/19. The impact of the new accounting standards have been disclosed within the financial statements. There has not been a material impact to the financial statements as a result of the implementation of IFRS9 and IFRS15, with movements in the classification of financial instruments disclosed within the financial statements. Management provided us with detailed working papers setting out their assumptions and judgements for the implementation of IFRS9 and IFRS15.
2 Business conditions affecting the Council, and business plans and strategies that may affect the risks of material misstatement	<ul style="list-style-type: none"> No such issues were identified
3 Concerns about management's consultations with other accountants on accounting or auditing matters	<ul style="list-style-type: none"> No such issues were identified
4 Discussions or correspondence with management in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services	<ul style="list-style-type: none"> We were reappointed as auditors to the Council for five years from 2018/19
5 Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	<ul style="list-style-type: none"> No such issues were identified
6 Other matters that are significant to the oversight of the financial reporting process	<ul style="list-style-type: none"> No such issues were identified

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

The Council has reviewed their going concern position and has concluded that it is appropriate to produce their accounts on a going concern basis and no material uncertainties exist.

Auditor commentary

- The Council's use of the going the concern basis of accounting is appropriate.
 - The Council has provided us with its working paper for its assessment of going concern.
 - The disclosure of the going concern basis within the financial statements is satisfactory.
-

Work performed

We discussed the financial standing of the Council with the Treasurer and s151 officer and reviewed management's assessment of going concern and the assumptions and supporting information.

Auditor commentary

No material uncertainty identified.

The accounts have been prepared on a going concern basis, under the assumption that the Council will continue in existence for the foreseeable future.

The Council has assumed that Revenue Support Grant from the government will cease in 2018/19. The Council has also considered important issues like the economic uncertainty surrounding Brexit, the potential impact of the Fair Funding Review and the roll out of greater local retention of Business rates. Based on this the Council will be faced with a funding gap in future years, the extent of which depends on the economy, future council decisions, and central government's decisions on local government funding.

Net expenditure from 2020/21 will be funded from Business Rates baseline funding, New Homes Bonus and Council Tax based on City Deal projections. This will result in continuation of expenditure being higher than income. The Council has therefore put in place plans to use its available reserves to fill this funding gap in future years until 2022/23.

As at 31 March 2019 the Council has a general fund balance of £8.879m. The Cabinet forecast shows that the general fund balance will decrease to £2.762m after using the general fund reserves to fill the budget gap in the 4 years from 2019/20 to 2022/23. The balance of £2.762m is above the required set minimum of £1.1m general reserves. The Council also has £21.299m of earmarked reserves to be used for various programmes in the next 4 years and beyond.

The Council is therefore well placed to continue funding its operations with the support of the general fund beyond 2022/23.

Concluding comments

The Council's use of going concern basis of accounting is appropriate.

Auditor commentary

- Our opinion is unmodified in respect of the going concern conclusion.
-

Other communication requirements

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

	Issue	Commentary
1	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
2	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
3	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council. The draft letter of representation is included as an agenda item at the Audit Committee on 29 July 2019.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmation from PWLB for loans and requested from management permission to send confirmation requests to the Council's bankers and those with whom it placed investments. This permission was granted and requests were sent. All of these requests were returned with positive confirmation except that Insight bank have declined to provide their confirmation direct to us. We have agreed balance with them of £3.5m to bank statement which is consistent with underlying records.
6	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
7	Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All information and explanations requested from management was provided. The financial statements were received on time, and published within the statutory deadline. The financial statements were prepared to a good standard with embedded quality review processes in place. Working papers were available at the start of the audit and were detailed, and clear to understand. The responses to our audit samples and queries were comprehensive and timely.

Other responsibilities under the Code

Issue	Commentary
① Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect which is detailed in Appendix C.</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>There are embedded processes within the Council to produce and review the Annual Governance Statement.</p> <p>We have nothing to report on these matters.</p>
③ Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> This work is not required as the Council does not exceed the threshold of £500m
④ Certification of the closure of the audit	<p>We intend to certify the closure of the 2018/19 audit of Council in the audit opinion, as detailed in Appendix C.</p> <p>.</p>

Value for Money

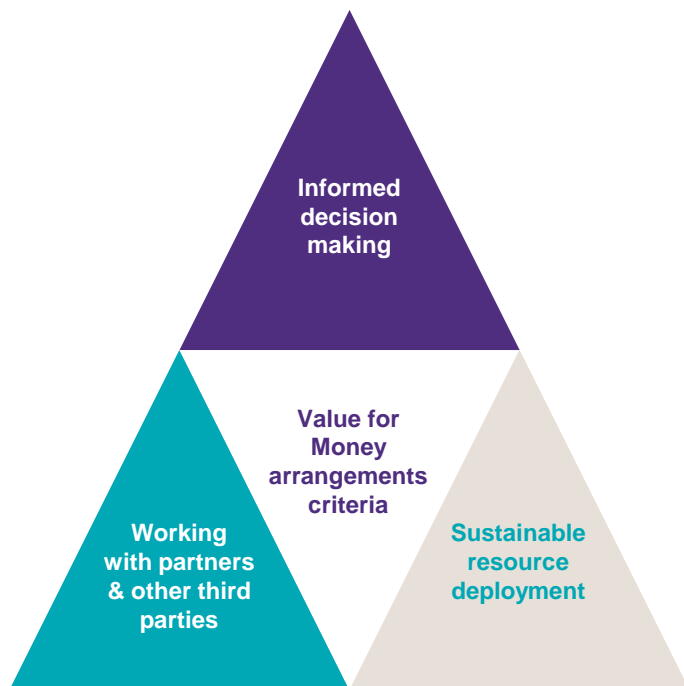
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in January 2019 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 10 January 2019.

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

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. We detail our findings on pages 17-19.

Key findings – Financial sustainability and going concern

We set out below our key findings against the internal control significant risk we identified through our initial risk assessment.

Significant risk – Planned work	Findings	Conclusion
<p>1 Financial sustainability and going concern</p> <p>Financial stability based upon the MTFP and achievement of savings – it is likely that the Council will achieve a balanced budget in this regard for 2018/19 but that pressure will begin to mount from 2019/20 onwards.</p> <p>We have reviewed the Council's arrangements for budgeting and monitoring of the ongoing financial position to assess whether the basis for assumptions and ongoing forecasts are realistic and appropriately managed.</p>	<ul style="list-style-type: none"> • Training is provided to the members of Budget Working Group (The BWG). The BWG consists of the Leader, Cabinet members, three backbenchers and the Corporate Management Team. The BWG met regularly during the budget period from March 2018 to January 2019 inclusive of a planning away day and a budget consultation exercise. • The Budget Council approves the budget (including the capital programme) on recommendation from Cabinet. • Once the Cabinet has a settled forecast and detailed proposals are published, the Council conducts early consultation with stakeholders, including business rate payers, in respect of strategic budget issues. • The Council has an agreement with Trades Unions who represent employees, that any budget proposal affecting employees will be made known to them prior to publication although the period of consultation may follow publication. • The Council set a Four Year Efficiency Plan for 2016/17 to 2019/20 which has been implemented in line with targets. The Council has achieved significant savings such as the transfer of the Leisure Centres to GLL and efficiency savings from the digital agenda. The Council is on course to achieve the remaining savings planned for 2019/20 which is the final year of the plan. • The greatest challenge for the Council is achieving long term financial stability, ensuring it has a position where expenditure is not more than income. 2018/19 was the final year in which Preston received Revenue Support Grant from Government. The Fair Funding Review and the future distribution of National Non-Domestic Rates (Business Rates) still remain unknown. The difficulties that these policies create extend to the provision of even basic statutory Council functions. In addition the uncertainty of Council's financial landscape is magnified by the yet unquantifiable impact of Brexit. • The Council has assumed that Revenue Support Grant from the government will cease in 2018/19. The Council has also considered important issues like the economic uncertainty surrounding Brexit, the potential impact of the Fair Funding Review and the roll out of greater local retention of Business rates. Based on this the Council will be faced with a funding gap in future years, the extent of which depends on the economy, future council decisions, and central government's decisions on local government funding. • Net expenditure from 2019/20 will be funded from Business Rates baseline funding, New Homes Bonus Council Tax based on City Deal projections. This will result in continuation of expenditure being higher than income. The Council has therefore put in place plans to use its available reserves to fill this funding gap in future years until 2022/23. • As at 31 March 2019 the Council has a general fund balance of £8.879m. The Cabinet forecast shows that the general fund balance will decrease to £2.762m after using the general fund reserves to fill the budget gap in the 4 years from 2019/20 to 2022/23. The balance of £2.762m is above the Council's assessed minimum of £1.1m general reserves. The Council also has £21.299m of earmarked reserves to be used for various programmes in the next 4 years and beyond. 	<p>Auditor view</p> <p>There were adequate arrangements in place during 2018/19 over budgeting and monitoring of the Council's ongoing financial position.</p> <p>Our value for money conclusion opinion is unqualified for 2018/19.</p>

Key findings – Financial sustainability and going concern

We set out below our key findings against the internal control significant risk we identified through our initial risk assessment.

	Significant risk – Planned work	Findings	Conclusion
2	<p>Financial sustainability and going concern</p> <p>The Council may be exposed to significant financial risks from its City Deal/Regeneration projects and Town Centre redevelopment.</p> <p>We have reviewed the Council's arrangements for funding of its City Deal / Regeneration projects and Town Centre redevelopment with a main focus on the Harris Quarter Leisure Scheme</p>	<ul style="list-style-type: none"> • In line with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code the Council is required to ensure that all major capital investment plans are affordable, prudent and sustainable. The City Council has commissioned two pieces of external advice to inform decision making on the city centre projects which includes a Cinema Development. • The Council approved the principles of the transaction structure, the principles and authorisations and an indicative programme to bring forward a family-orientated leisure provision on the site of the former Indoor Market and Market Hall Car Park in the Harris Quarter; • The Council reviews all key financial assumptions on an on-going basis and identifies whether there are any material changes which need to be incorporated. These may include changes in assumptions made, either as a direct result of changes in external factors, economic climate, legislation or decisions made locally. The Council has considered key financial assumptions for the 2018/19 budget position and projections for the years 2019/20 to 2022/23. • The Council obtains relevant advice from external legal, commercial and property advisors on the main projects to minimise risks. • The Council is preparing a business plan using an external property advisor to determine economic viability of the project. • It was confirmed that the Harris Museum received initial lottery support to develop a £10.7m project for creating the UK's first 'blended' museum, art gallery and library. Initial feasibility work has been undertaken on Amounderness House and the Birley Street Annex to help understand and promote how these long-term vacant/underused buildings can be brought back into full time use. • We understand further reports are to be presented to the Council's Executive to assist the Council in making well informed decisions on the project. 	<p>Auditor view</p> <p>The Council has put in place appropriate robust arrangement to ensure only viable projects are undertaken at affordable cost and having assessed the relevant risks attached to the projects</p> <p>Our value for money conclusion opinion is unqualified in 2018/19</p>

Value for Money

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix C.

Recommendations for improvement

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

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

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

Details of fees charged are detailed in Appendix B.

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement		Balance Sheet		Impact on total net surplus/(deficit)
		DR £'000	CR £'000	DR £'000	CR £'000	£'000
1	Dr Past Service Costs – Overheads Cr Long Term Liabilities - Pension Net Liabilities Being recognition of the impact of McCloud case .	1,729			1,729	(1,729)
2	Dr Long Term Liabilities - Pension Net Liabilities Cr Actuarial (gains)/losses on pensions assets and liabilities Being recognition of the impact of McCloud case re:actuarial gains/losses		563	563		563
		1,729	563	563	1,729	1,166
	Overall impact (Reversed out via adjustments between accounting basis and funding basis under regulations)	1,166			1,166	£nil
3	<p>Various main statements and notes in the financial statements have been updated to reflect the impact of the above adjustment . The following are the statements and the notes affected:</p> <ul style="list-style-type: none"> • Narrative Report : Table on page 4 and has been updated. Page 5 has been updated • Movement in Reserves Statement has been updated • Cashflow statement has been • Note 1, Income, Expense, Gains and Losses • Note 13, Other Long Term Liabilities • Note 15, Net Liability Related to Local Government and Firefighters' Pensions Schemes • Note 18, Unusable Reserves and Pensions Reserve • Note 19, Contingent liabilities • Note 23, Adjust net surplus/(deficit) on the provision of services for non cash movements • Note 26, Assumptions made about the future and other major sources of estimation and uncertainty • Note 28, Expenditure and Income Analysed by Nature 					

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement		Balance Sheet		Impact on total net surplus/(deficit)
		DR £'000	CR £'000	DR £'000	CR £'000	£'000
4	Dr Capital Grants Unapplied Cr Community Infrastructure Levy – Capital grants and contributions credited to Taxation and Non-specific Grant Income Being correction of CIL income credited to Taxation and Non-specific Grant Income in 2018/19		290	290		(290)
5	Dr Community Infrastructure Levy – Capital grants and contributions credited to Taxation and Non-specific Grant Income Cr Capital Grants Unapplied Being clearance of CIL income credited to services in error now corrected.	362			362	362
		362	290	290	362	
	Overall impact	72			72	72
	<ul style="list-style-type: none"> Various main statements and notes in the financial statements have been updated to reflect the impact of the above adjustment. <ul style="list-style-type: none"> CIES Cashflow Statement MIRS EFA 2017/18 CIL income figures and Capital grants unapplied figures have been restated to reflect the impact of the adjustment relating to previous years' figures as per page 9. 					

Audit Adjustments

Misclassification and disclosure changes

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

	Disclosure omission	Detail	Action required	Adjusted?
1	Community Infrastructure Levy: Income credited to Taxation and Non Specific Grant income	Note 11 Capital grants and contributions credited to taxation and non specific grant income was understated by £2,691,000 in 2018/19 and was understated by £4,017,000 in prior years.	Increased Community Infrastructure Levy disclosed within Capital Grants and Contributions credited to Taxation and Non Specific Grant Income by £2,691,000 for 2018/19 and £4,017,000 for 2017/18.	✓
2	Community Infrastructure Levy: Grants received for capital purposes credited to services	Note 11 Grants received for capital purposes credited to services was overstated by £2,691,000 in financial year 2018/19 and was overstated by £4,017,000 in prior years.	Decreased Community Infrastructure Levy disclosed within Grants Received for Capital purposes credited to services by £2,691,000 for 2018/19 and £4,017,000 for 2017/18.	✓
3	MIRS	There was no total column for statutory general fund in the MIRS	Added a column for totals of the statutory general fund	✓
4	Narrative Report	There were some hyperlinks in the Narrative report to sources outside the Statement of Accounts	Remove hyperlinks in the Narrative Report to ensure the accounts stand alone as our audit report does not cover content available via the hyperlinks.	✓
5	Page 83 Note 35, Defined Benefit Pension Scheme	Table heading not correctly defined	Amended heading from 'Quoted prices not in active markets' to 'Not Quoted in active markets'	✓
6	External Audit fee costs	The Audit fee table included fees payable to Department for Work and Pensions for the National Fraud Initiative	Fees payable to Department for Works and Pensions for the NFI has been removed from the note.	✓

Fees

We confirm below our final fees charged for the Council's 2018/19 external audit.

Audit Fees

	Final fee 2017/18 (£)	Proposed fee 2018/19 (£)	Final fee 2018/19 (£)
Council's accounts audit	60,627	46,683	46,683
Additional fee: McCloud case adjustment and CIL transactions	-	-	2,500
	60,627	46,683	49,193
Certification of grant claims	11,000	12,500	TBC
Total audit fees (excluding VAT)	£71,627	£64,193	TBC

* Due to additional time required to review the impact of the McCloud judgement case and the transactions for Community Infrastructure Levy an additional fee of £2,500 has been included as part of the 2018/19 audit fee. We will discuss the matter with management.

DRAFT Audit opinion

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

Independent auditor's report to the members of Preston City Council Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Preston City Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements, Policies and Judgements, and Notes to the Collection Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Draft Audit opinion

Opinion on other matter required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 25, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the City Treasurer. The City Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the City Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 25, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the City Treasurer. The City Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the City Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the City Treasurer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Draft Audit opinion

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

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

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively. We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Preston City Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

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

[Signature]

John Farrar, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Manchester

Xx July 2019



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