

# Wirral Council audit plan – for discussion

**Year ending 31 March 2021**

5 July 2021



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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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# Key matters

## Factors

### Council developments

We have continued to hold regular meetings with the senior finance team at the Council. During these meetings we have discussed a range of key issues regarding the Council's general developments, current and projected financial performance, governance issues and regulatory oversight.

Over the past year the Council has faced significant financial challenges which has resulted in the Council receiving Governmental agreement to a capitalisation direction to meet the forecast deficit for 2020/21. At the time of producing this plan, the Council is projecting a year-end balanced budget with the exceptional financial support of the capitalisation direction.

The Medium Term Financial Strategy has been updated to reflect future financial challenges and the MTFS and budget were approved by the Council following public consultations. Whilst the Council is forecasting a balanced position for 2021/22, it needs to ensure it delivers against the budget. The balanced position for 2021/22 includes the delivery of a significant savings plan (£24.6m) and Governmental agreement to a capitalisation direction (£10.7m). The Council will have to deliver significant savings in 2022/23 and beyond to ensure it balances its budget. This will include both income generation and significant changes to service provision.

The Regeneration and Place Directorate has a significant number of regeneration projects that are being developed. This includes both new homes and commercial floorspace. To support the regeneration of Birkenhead Town Centre, the Council has secured £24.6m through the Future High Streets Fund. Combined with other services the Council has agreed a capital programme of £78.3m for 2021/22 of which £39.7m will be funded through borrowing. Given the pressures on revenue the Council will need to ensure that the capital programme remains affordable.

The Council has established a number of group companies including one joint venture and on partnership, these being Edsential and Wirral Growth Company. It has made other investments such as in the Public Sector Social Impact Fund. It is important that the Council ensures that these commercial investments make the returns that it is forecasting and that the governance of these investments is appropriate.

### Impact of Covid 19 pandemic

The Covid-19 pandemic has impacted upon all of our lives. While there has been some relaxation of 'business as usual' arrangements, public sector bodies are still required to abide by the stewardship requirements of Managing public money and have a statutory duty to carry out their functions effectively, efficiently and economically.

The outbreak of the coronavirus (Covid-19) pandemic has had a significant impact on the normal operations of the Council. The Council has had to work differently at all levels to be able to deliver all of its required services effectively. Staff have been redeployed to front-line roles and new/revised services have been required to be provided by the Council.

The government has provided a range of financial support packages throughout the COVID-19 pandemic. These include additional funding to support the cost of services or offset other income losses and also grant packages to be paid out to support local businesses.

Our assessment is that the Council has developed a very strong understanding of its financial and wider governance risks during the pandemic and, despite future financial uncertainty about medium term government funding, is well placed to address post Covid 19 challenges.

## Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Resources.
- In common with other local government bodies we have identified significant risks with regard to management override of control and revenue recognition.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work. Our work will focus on the financial sustainability of the Council, and its group companies and joint ventures.
- As part of our 2019-20 Audit Findings Report, we identified four recommendations for management. An update on the implementation of the recommendations can be found on page 12.
- We will continue to provide you with sector updates via our Audit Committee updates.

# Introduction and headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Wirral Council ('the Council') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed *in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Wirral Council. We draw your attention to both of these documents.*

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Risk Management committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Risk Management Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of Land & Buildings and Investment Property
- Valuation of the Pension Fund Net Liability
- ISA 240 Improper Revenue Recognition in relation to Covid-19 grant income

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined planning materiality to be £10m (PY £11m) for the Council, which equates to 1.3% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.5m (PY £0.6m).

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- Financial sustainability
- Governance arrangements for the Council's interests in its other entities

## Audit logistics

Our interim visit took place during March and our final visit will take place virtually from July to September. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £198,445 (PY: £173,734) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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..

# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</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 for the group and the Council, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>
Valuation of Land & Buildings and Investment Property	<p>The Council revalues its land and buildings on a rolling five-yearly basis. Investment properties are revalued annually.</p> <p>These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally for land and buildings, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for surplus assets and investment property) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings and investment property as a significant risk for the Council, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• write out to them and discuss with the valuer the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• engage our own valuer to assess the instructions to the Council's valuer, the Council's valuation report and the assumptions that underpin the valuation</li> <li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register</li> <li>• evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end</li> </ul>



# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the Pension Fund Net Liability	<p>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>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>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>We will:</p> <ul style="list-style-type: none"> <li>• update 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 evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• test 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> <li>• undertake 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> <li>• obtain assurances from the auditor of Merseyside 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> </ul>
ISA 240 revenue improper recognition risk	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition may not be rebutted completely, because we have identified that there is the incentive to overstate Covid-19 expenditure in order to gain additional Covid-19 funding.</p> <p>For the remaining material revenue streams we have acknowledged the following:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition for</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Wirral Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the Council's policy for the recognition of Covid-19 funding;</li> <li>• gain an understanding of the processes and controls put in place by management to ensure that the Council's Covid-19 funding has been appropriately recognised and matched to appropriate expenditure incurred;</li> <li>• challenge key assumptions, the appropriateness of source data and the basis for calculations of Covid-19 income accruals;</li> <li>• raised in April and May to ensure they have been charged to the appropriate year; and</li> <li>• substantively test a sample of year end Covid 19 debtor balances.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
ISA 240 improper expenditure recognition	<p>Practice note 10 (PN10), issued by the FRC, states auditors should also consider that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>Having considered the risk factors set out in ISA 240 and PN10 and the nature of the expenditure streams at the Council, we have determined that the risk of fraud arising from expenditure manipulation can mainly be rebutted as</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition for</li> <li>• opportunities to manipulate expenditure recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Wirral Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>However, we have determined that the risk of fraud arising from expenditure recognition may not be rebutted completely, because we have identified that there may be a risk of Covid-19 expenditure being overstated in order to gain additional Covid-19 funding. There may also be fraudulent claims with regard to the Covid-19 related funding distributed to the Council.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the Council's policy for the recognition of Covid-19 expenditure;</li> <li>• gain an understanding of the processes and controls put in place by management to ensure that the Council's Covid-19 expenditure has been appropriately recognised and matched to appropriate expenditure incurred;</li> <li>• challenge key assumptions, the appropriateness of source data and the basis for calculations of Covid – 19 expenditure accruals;</li> <li>• substantively test a sample of year end Covid – 19 payables balances; and</li> <li>• test a sample of Covid-19 expenditure to ensure that it has not been overstated through fraud or error.</li> </ul>

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

## Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Risk Management Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?





# Accounting estimates and related disclosures

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings and investment properties
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

## The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



### Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainty is unresolved.**

### Planning enquiries

As part of our planning risk assessment procedures we issued management with a series of questions which they have responded to and with the assistance of Internal Audit the Chair of the Audit and Risk Management Committee has also added her comments to our questions. (These are attached as an appendix to this audit plan that will be presented at Audit Committee).

### Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act; and
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:



- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).



PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 14).

# Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the Council's financial statements, which resulted in four recommendations being reported in our 2019/20 Audit Findings Report. We have followed up on the implementation of our recommendations and actions have been taken to address these issues as documented below:

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
 <b>High</b>	<p>✓</p> <p><b>Journal control procedures</b> Our review of the journals posted during the year identified that a large number of journals are both posted and authorised by the same person which is considered a risk of management override of controls</p> <p><b>Management response</b> A review of the process has been undertaken and management have already started to identify a revised procedure to reduce risk and increase controls. This will be a two phased approach; a manual approach commencing January 2021 whilst a system re configuration is under evaluation and implemented.</p>	<p>The manual approval of journals was introduced in January 2021 and is working well, monitoring of journals to ensure they are approved and attachments have been completed is also carried out. Where we have found failings we have requested the senior finance manager reviews those journals and sends confirmation to myself they are satisfied they are correct.</p> <p>We will be monitoring this and escalations for failure to adhere to the process will be undertaken to avoid non-compliance.</p>
 <b>High</b>	<p>✓</p> <p><b>Segregation of duties conflicts between Oracle system administration and finance roles</b> The audit observed a service account which has also been found to possess conflicting IT and Finance responsibilities. This allows a wide range of access to change and configure the system, users and data therein.</p> <p><b>Management response</b> This related to one user account which was created by Fujitsu services when the eBusiness Suite was implemented. The account was used to carry out certain customisation work within the system. The Council is in the process of migrating our CRM processes to a replacement system so do not envisage needing to use this account anymore. The account has been closed in a test environment and are monitoring the system for any issues. Our intention is to end date this account in the live environment.</p>	<p>As indicated on in the original management response the CRMSETUPUSER was a user account configured by Fujitsu and was used specifically to setup and configure the CRM System. The testing of applying an end date to the account in the test system highlighted a number of issues which impacted on the CRM system so the account was left live and instead specific responsibilities within the account relating to the System Administrator and Financials were removed.</p> <p>By removing the applicable responsibilities the concerns raised have now been addressed.</p>

# Progress against prior year audit recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
 High	✓	<p><b>Oracle system configuration, access granted to an excessive number of users, including non-IT staff/end users</b></p> <p>During the audit we observed 443 users who have access to change system configurations. We would expect these activities to be assigned only to system administration, of which there are 13 accounts.</p> <p><b>Management response</b></p> <p>We are obviously concerned regarding the large number of accounts which have been identified as having this issues and also the marked increase since last year's report.</p> <p>It appears that a large number of uses have been identified this year as a result of having access to the menu MBOW_CUST_CONTACT1 which has the menu option Other (CSX OTHERS). We have checked the system and our original build documentation, and this menu option has been available since 2005.</p> <p>Members of IT and Senior System users may need access to some of these functions to be able to undertake their job roles.</p> <p>The HR user HASLAMN no longer requires access to this functionality so will be end dated.</p> <p>A review of all users responsibilities is planned to align them to users needs</p>	The system configuration changes have now been implemented.
 Medium	✓	<p><b>Completeness of the Fixed Asset Register</b></p> <p>Our existence testing of the Council's fixed asset register resulted in a number of assets no longer existing. The impact of this is an overstatement of the Council's assets and corresponding reserves.</p> <p><b>Management response</b></p> <p>Management have put in place for 2020/21 a process to review and identified assets no longer in existence</p>	A review and process to look at equipment held on the asset register has been undertaken and high value items have been reviewed and corrections have been made in year. As part of our audit work on the 2020/21 we will perform existence testing on the Council's fixed asset register to gain the assurance over the completeness of the assets held.



# Materiality

## The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £10.00m (PY £11.181m) for the Council, which equates to 1.3% of your forecast gross expenditure for the year., we have reduced the percentage from 1.5% used for the prior year given the financial challenges facing the Council. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be 2% of total senior officers' remuneration for the senior officers' remuneration disclosures. We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the Audit Risk Management Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Risk Management Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.5m (PY £0.559m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Risk Management Committee to assist it in fulfilling its governance responsibilities.

## Prior year gross operating costs

£781m Council  
(PY: £724M)



■ Prior year gross operating costs

## Materiality

£10m  
Council financial statements materiality  
(PY: £11.181m)



£0.5m  
Misstatements reported to the Audit and Risk Management Committee  
(PY: £0.559m)

# Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



### Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



# Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

## Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



### Financial sustainability

The Council has recently faced an increasing difficult financial position which has led to Governmental exceptional financial support in the form of a capitalisation directive to meet the budget shortfall in 2020/21 to achieve a balanced budget. This financial support is only a temporary measure and the Council has acknowledged the need to make substantial savings in the next few years to return to establish a sustainable financial position.

In response to this risk we will perform a review of the Council's medium term financial strategy with a focus on the savings plans to gain an understanding of the assumptions management has made with in relation to costs and income.



### Governance

The Council has financial interests in a number of entities which fall within a group boundary. It is investing further in some of these such as the Wirral Growth company. It has also made other long term investments such as the Public Sector Social Impact Fund and is considering investing in areas such as banking. The effective governance of these arrangements is critical if the Council is to safeguard its finances.

In response we will gain an understanding of the governance arrangements in place for the Council's joint ventures, subsidiaries, and other investments. We will also carry out a review of the management information for which decisions are based on to form an opinion on the appropriateness of such information.



### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

# Audit logistics and team



## Mark Stocks, Key Audit Partner

Mark leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring the highest professional standards are maintained and a commitment to add value to the Audit & Risk Management Committee and the Council



## Naomi Povey, Audit Manager

Naomi plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues.



## Olalekan Ayilara, Audit Incharge

Olalekan assists in planning, managing and delivering the audit fieldwork, ensuring that the audit is delivered effectively and efficiently. He supervises and co-ordinates the on-site audit team.

## Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

# Audit fees

In 2018, PSAA awarded a contract of audit for Wirral Council to begin with effect from 2018/19. The fee agreed in the contract was £123,095. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 15, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £52,000 (61%) . This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the Director of Resources.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Wirral Council Audit fee (excluding VAT)	£139,095	£173,734	£198,445

## Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.



# Audit fees – detailed analysis

Scale fee published by PSAA	£123,095
Raising the bar/regulatory factors	£10,500
Enhanced audit procedures for Property, Plant and Equipment	£9,350
Enhanced audit procedures for Pensions	£3,500
Additional work on Value for Money (VfM) under new NAO Code	£29,000
Increased audit requirements of revised ISAs	£17,000
Local risk factors (financial standing)	£6,000
<b>Total audit fees (excluding VAT)</b>	<b>£198,445</b>

# Independence and non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

## Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefits Claim	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work will be below the total fee for the audit of £198,445 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers' Pensions return	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work will be below the total fee for the audit of £198,445 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO insight	12,500	Self-Interest (because this is a recurring fee)	<p>This is an online software subscription service that enable users to rapidly analyse data sets. CFO Insights is a Grant Thornton and CIPFA collaboration giving instant access to financial performance, service outcomes and socio-economic indicators for local authorities.</p> <p>It is the responsibility of management to interpret the information. The scope of our service does not include making decisions on behalf of management or recommending or suggesting a particular course of action. These factors mitigate the perceived self-interest threat. The fee for the work is negligible in comparison to the total fee for the audit.</p>

# Appendix 1: Revised Auditor Standards and application guidance

## FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	✓
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	✓
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✓





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