The Audit Findings for Wirral Council

Year ended 31 March 2021

24 January 2022

Contents

Your key Grant Thornton team members are:

Mark Stocks
Key Audit Partner
E mark.c.stocks@uk.gt.com

Naomi Povey
Audit Manager
E naomi.j.povey@uk.gt.com

Olalekan Ayilara
Assistant Manager
E Olalekan.Ayilara@uk.gt.com

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.

This Audit Findings 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. Its contents have been discussed with management and the Audit and Risk Management Committee.

Name : Mark Stocks
For Grant Thornton UK LLP
Date : 24 January 2022

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Wirral Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

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 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.

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.

Our audit work was completed remotely during July -- December. Our findings are summarised on pages 5 to 23.

In summary:

- We have identified 3 adjustments to the financial statements that have resulted in a £21.3m adjustment to the Council's Comprehensive Income and Expenditure Statement. These are the remeasurement of the Council's pension assets, and the correction of a depreciation and land/building error. These adjustments do not impact on useable reserves. Audit adjustments are detailed in Appendix C.
- The Council is required to make a Minimum Revenue Provision (MRP) against borrowing. MRP represents 3% of the Council's overall Capital Financing Requirement of £262.6m when including the charge for the Merseyside Residual Debt Fund. For £170m of this balance the Council has made a reduced MRP provision of £7,000 in 2020/21 which takes into account an overpayment of the provision in previous years totalling £26m which has been reprofiled over a 10 year period, effectively reducing the provision by £2.6m per year. We also note that the MRP has been calculated using the annuity method of 2% on the historical supported borrowing. This will result in a significant increase in MRP payments in future years. The policy has been approved by members. It should also be noted that the Council is forecasting a rise in its Capital Financing Requirement during 2021/22 of £75m, which will result in an additional £2.821m MRP charge for 2022/23. It is important that future capital plans take account of the impact on revenue of the related increases in MRP. Whilst the Council's policy on MPR complies with the statutory guidance we consider that the Council should reconsider whether its MRP policy is prudent.
- The Council is entering into a number of commercial activities where it is issuing guarantees or entering into complex transactions such as PUT/Call options. These activities have significant potential liabilities for the Council. We also note that investments of this kind may also require minimum revenue provision payments. When we requested information on the liabilities and accounting implications of these transactions we identified that the Council did not readily have this information available or in the case of the accounting treatments had not prepared papers. We have requested accounting papers from the Council and disclosure of these matters in the financial statements. More detail is provided on page 20.
- The debtors balances included within the balance sheet contains transaction data dating back to 2006 due to the way in which the General Ledger and Control Accounts have been set up. This has resulted in challenges faced by the both the finance team and audit team in reconciling the debtors balance to the accounts and sample testing debtor transactions. We are satisfied that the complete Aged debtors report generated from the Accounts Receivable Control Account has been correctly reconciled to the General Ledger, however the lack of clarity at transaction level resulted in further information requests and audit procedures being carried out to gain the sufficient assurance.
- The Council's Business Rate appeals. The Council is only making provisions against known appeals and then only for those that come from the 2005 and 2010 listings. This is a different approach to most councils and we have asked the Council to revisit the provision. Following external advice received by the Council, we are reporting that the Council should increase its provision by up to £4m. The Council considers its likely liability to be £1.87m. See page 19 for detail. We have also reported this as an unadjusted error – see Appendix C. This would reduce the Council's available reserves

1. Headlines cont.

Financial Statements cont.

Going Concern

There is a presumption under Practice Note 10 that local authorities are a going concern as the accounting framework assumes that statutory services will continue to be delivered by the public sector. However, auditors are required to consider whether a material uncertainty related to going concern exists.

The Council requested Exceptional Financial Support from the government in 2020/21 and 2021/22 to help balance its budget by raising capital borrowing to support some of its revenue expenditure. The Council was granted a Capitalisation Directive for 2020/21 of £9m of which the Council required £6.5m in order to achieve a balanced position at the end of 2020/21. A conditional offer of £10.7m for 2021/22 was granted of which the Council expects to require £7.3m. This need to additional support has arisen not just as a result of Covid-19 but also due to the Council avoiding making difficult financial decisions and using the General Fund reserves to meet unexpected events. This has led to General Fund reserves depleting from 8% of net revenue expenditure in March 2018 to anticipated 3.3% by March 2022. A generally acceptable prudent measure is a minimum of 5% net revenue expenditure to be held in General Fund reserves.

The Medium-Term Financial Strategy approved by Members of the Council to address the financial challenge is not explicit about the scale of the challenge or the touch choices that will need to be made to deliver it and as a result a new Medium Term Financial Strategy was agreed by the Policy and Resources Committee on 1 December 2021 that addresses these concerns. Considerable savings are required over the medium term and the Council has failed to deliver over 25% of its savings in the last two years, resulting in the falling reserves levels.

The Capitalisation Directive granted to the Council will bridge the budget gap in 2021/22 . As a result of this Exceptional Financial Support and the assumption under PN10 we have concluded that there is no material uncertainty with regards to the Council being a going concern. We, however, have continuing concerns with regard to the Council's financial sustainability and continued action is needed by the Council to resolve its budget gap.

Other issues

We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

The audit has taken considerably longer than expected this year as a result of the following issues:

- The information produced by the financial system has not been of sufficient quality and detail to enable efficient sample testing of the material balances in the financial statements. This has led to numerous transactions listings being produced and the need to replicate work on a number of occasions in order to gain assurance over complete populations which reconcile to the financial statements.
- The inclusion of internal recharges within the gross income and expenditure for the provision of services as reported on in last year's Audit Findings Report has caused considerable additional work for both the finance team and the audit team to ensure sufficient assurance has been gained over the disclosures in the Comprehensive Income and Expenditure Statement and supporting notes.
- Capacity of the Council's finance team who have had considerable demands placed on them this year, not just from the increased level of audit challenge and requests but from internal pressures in relation to ERP and financial planning and monitoring.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters;

- receipt of management representation letter {– see appendix F}] and
- review of the final set of financial statements.

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.

Our anticipated audit report opinion will be unqualified.

1. Headlines cont.

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report by 31 March 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified two risks in respect of financial sustainability and governance .Our work in underway and we will report our findings in the Auditor's Annual Report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- 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.

We have not exercised any of our additional statutory powers or duties

We expect to certify the completion of the audit upon the completion of our work on the Whole of Government Accounts (WGA) and the Council's VFM arrangements, which will be reported in our Auditor's Annual Report in March 2022

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

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 the Audit and Risk Management Committee.

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 our audit plan, as communicated to you on 5 July 2021.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Risk Management Committee meeting on 30 November 2021, as detailed in Appendix E. These outstanding items include:

- completion of our review of the fixed asset register reconciliation to the general ledger:
- completion of our review of the business rate appeals provision;
- receipt of management representation letter {– see appendix F}] and
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted on page 17 of our audit plan presented to the Audit and Risk Management Committee on 5 July 2021. the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remote access working arrangements with remote accessing financial systems, video calling, physical verification of assets, verifying the completeness and accuracy of information provided remotely produced by the entity and access to key data from Council staff. This resulted in us having to carry out additional audit procedures, specifically in relation to our sample testing of income and expenditure, as summarised on page 39 to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements.

Signed : M C Stocks, Partner, 24 January 2022

2. Financial Statements

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 levels remain the same as reported in our audit plan on 5 July 2021. We detail in the table below our determination of materiality for Wirral Council

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	10m	We have determined materiality as 1.24% of gross operating expenditure for the year. This is in line with the standard approach and reflects the risks associated with the Authority's financial performance.
Performance materiality	7.5m	Assessed as 75% of financial statement materiality and based on our knowledge of the Authority and consideration of previous audit findings and adjustments.
Trivial matters	0.05m	Assessed as 5% financial statement materiality
Materiality for Materiality for the senior officers' remuneration disclosures.	0.003m	The senior officer remuneration disclosures has been identified as an area requiring specific materiality due to the sensitivity of disclosures in this area. This has been assessed as 2% total senior officer remuneration.

2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls 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. 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.	We have: • 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. Results: We identified a change in the process for recognising accruals with the Council increasing the value to £5,000 for raising manual accruals for any individual debtor or creditor. This represents an increase from £1,000 under the former process. Accruals are still recognised below £5,000 as auto-accruals are raised. In the Audit Findings Report for 2019/20 we identified that a large number of journals were both posted and authorised by the same person and raised a recommendation that appropriate journal controls processes are put in place. We are pleased to report that through our sample testing of journals, we found no instances where journals were posted and authorised by the same person. Our audit work has not identified any evidence of management override of controls.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings The Council revalues its land and buildings on a rolling five-yearly basis. Investment properties are revalued annually. 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. 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. 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.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written out to them and discuss with the valuer the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuation report and the assumptions that underpin the valuation • tested revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluated 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 Results: The Council uses its own In-House Valuers to value its Land and Buildings. The valuer prepared their valuations in accordance with the RICS Valuation – Global Standards using their existing knowledge of the Council's property portfolio. Those assets considered to be of high value were revalued, along with a sample of 20% of assets in accordance with their rolling programme as at 31 March 2021 with the Valuers undertaking site visits in order to carry out their valuations. For the remainder of the assets as assessment if the expected movement in valuers was performed, using the results of the sampled revaluations and knowledge of the market conditions both nationally and locally during the period up to 31 March 2021. The valuer has opted to use insurance appraisals as a basis for the asset valuations instead of the industry standard BCIS rates. We have challenged the assumptions used in the calculations and obtained the evidence that the valuations have been appropriately adjusted for age and obsolescence factors and where appropriate the valuations adjusted for the modern equivalent for the DRC valuation assets. Our auditors expert has confirmed that this is an appropriate basis for valuation. We reviewed the other key assumptions used by the valuer in their valuation and source information, such as floor plans, used in the valuations. We are satisfied that the key assumptions and source information are appropriate. We considered the movements in valuation and carried out the procedures set out above, including comparison of movements since the previous valuation with appropriate market movement (Gerald Eve) indices. This provides assurance that valuation movements are in line with expectations. For the investment properties valuations which are revalued annually in accordance with the Code, we challenged the valuer on the revaluations of a sample of investment properties in order to understand the assumptions made and what supporting market evidence the valuer used in order to arrive at the value of the investment properties. We have corroborated this evidence using recognised industry expert's commercial yield rates and are satisfied that the assumptions used by the valuer are considered to be appropriate. We note that in the case of some of the Council's investments that the leaseholder has ceased to make payments, although repayment plans are in the process of being agreed. If this non-payment were to continue it could result in a significant although not material reduction in the value of Council investments. Our review of the reconciliation between the fixed asset register and the general ledger has identified that there are differences as a result of the fixed asset register incorrectly recognising certain valuation movements such as downward valuations and treating the movement as impairments. This results in the incorrect accounting treatment for valuations movements for certain assets. A manual journal is created to ensure that the asset revaluations are correctly posted to the general ledger. We have no further issues to report on this matter.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability 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. 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. 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. There methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and the life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.	We have: • 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 evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • 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; • 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 • obtained 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. Results: We have found no issues with 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. Our assessment of the work of the actuary confirmed that they were competent. The work performed to assess the reasonableness of the actuarial assumptions did not identify any issues. The work performed by the auditor of Merseyside Pension Fund identified that there was an increase in the value of the Fund's assets as a result of an increase in the remeasurement of the return on scheme assets.. Management obtained a revised IAS19 actuarial report from the Mercers which resulted in an updated estimate for the net pension liability having taken into consideration the increase in the rate of return for the scheme assets. We have agreed the revised actuarial report to the Council's pension disclosures and are satisfied that these have been amended appropriately. We have no further issues to report on this matter.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
ISA 240 revenue improper recognition risk Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. 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. For the remaining material revenue streams we have acknowledged the following: • there is little incentive to manipulate revenue recognition for • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Wirral Council, mean that all forms of fraud are seen as unacceptable.	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 can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Wirral Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for Wirral Council. However, our audit has identified that the Council's needs to strengthen its procedures with regard to debtor management.
ISA 240 improper expenditure recognition Practice note 10 (PN10), issued by the FRC, states auditors should also consider that material misstatements may occur by the manipulation of expenditure recognition. 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 • there is little incentive to manipulate revenue recognition for • opportunities to manipulate expenditure recognition are very limited • the culture and ethical frameworks of local authorities, including Wirral Council, mean that all forms of fraud are seen as unacceptable. 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.	In response to this risk we have: • evaluated the Council's policy for the recognition of non-pay expenditure • compared listings of 2019/20 accruals to those of 2020/21 to ensure completeness of significant recurring items • documented the goods received not invoiced accruals process and the processes management have in place, challenging key assumptions, the appropriateness of source data and the basis for calculations • documented the process for recognising Covid-19 funding and expenditure and substantively tested a sample of Covid-19 grants and expenditure. • obtained a listing from the cash book of non-pay payments made in April and May 2021 to ensure they have been charged to the appropriate year • obtained a listing from the AP system of invoices received in April and May 2021 to ensure they have been charged to the appropriate year • substantively tested a sample of year-end creditor and accrual balances. Our work has not identified any issues in relation to improper expenditure recognition therefore we have nothing to report on this matter.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2020/2021 statements to comply with the requirement of IAS 8 para 31. As a minimum, we expected audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases	Management disclosed in the Note to the financial statements the title, date of initial application and the nature of changes in accounting policy that would arise from IFRS 16. Management has estimated that the impact based on current operating lease non-cancellable obligations is £1.5m which will be brought onto the balance sheet for 2022/23. This would be immaterial to the financial statements based on current materiality	Due to the delay in implementation of the standard, we will look to review the work completed by management in relation to IFRS 16 in the next financial year. The emphasis of our review will be on whether the balance identified for recognition on the balance sheet is complete and not understated. We consider the disclosures to be consistent with the requirements of IAS 8.
Recognition and Presentation of Grant Income The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income	Judgement is required to determine whether the Council can be reasonably assured that the conditions of grant and contribution monies received have been met before recognising them as income in the Comprehensive Income and Expenditure Statement. Where conditions require specified expenditure to have taken place, the grant monies will not be recognised until this happens. Equally, where conditions specify that a grant or contribution must be repaid in the event of non-expenditure, the income is not recognised until the expenditure is incurred. We have tested a sample of grants with a total value of £340.485 million. We have also reviewed treatment of Grants to confirm the Council has correctly determined whether it is acting as agent or principal and whether specific conditions of grants have been met. We have carried out a further review to confirm the correct treatment of Covid related Grant Income.	Our work has not identified any issues regarding the allocation of grants.

2. Financial Statements – new issues and risks

Issue	Commentary	Auditor View
Comprehensive Income and Expenditure Statement – inclusion of internal recharges We reported in our Audit Findings Report last year that our testing of the gross income and expenditure identified that internal recharges between Council service directorates have not been correctly netted off in the Comprehensive Income and Expenditure Statement (CIES). Testing of the gross income and expenditure as disclosed in the draft financial statements again identified internal recharges which have not been correctly netted off in the Comprehensive Income and Expenditure Statement. The inclusion of internal recharges results in the CIES not complying with the Code as internal recharges do not meet the definition of income and expense as they are not an inflow/outflow of economic benefit to and from the Council as a whole whose performance it is that is being reported. These internal recharges do not result in an increase or decrease in reserves.	As part of our audit approach to sample test income and expenditure, we require full transaction listings which can be reconciled back to the draft financial statements from which to select sample transactions to test The Council posts adjustments to the General Ledger using the 'Spreadsheet' journal source which combined with the Accounts Receivable (AR) transactions reports and Accounts Payable (AP) transactions report provide agreement to the respective income and expenditure balances within the CIES. A review of the 'spreadsheet' has identified that both income and expenditure has been overstated for Children's Services as a result of internal recharges not being netted off for high needs funding. The impact for the 2020/21 financial statements is an overstatement of both gross income and gross expenditure of £14.7m.	This is considered to be a material misstatement of a qualitative nature due to both the income and expenditure within the CIES being overstated. A further review of the prior year 'spreadsheet' by management identified an overstatement of £13.8m in the 2019/20 which has resulted in the requirement for a prior period adjustment (PPA) given that the value is material. Management have adjusted for this matter
IT Control deficiencies The objective of the IT audit was to complete a design and implementation review over the Council's IT environment to support the financial statement audit.	A number of control weaknesses were identified in the assessment of the Council's Oracle system; • Oracle system configuration access granted to an excessive number of users, including non-IT staff/end users • Inappropriate segregation of duties as developers have access to the production environment within Oracle. • Oracle users with access to perform high risk activity (SQL injection). • Weaknesses in Oracle application and database password configuration. • Audit logs are not enabled for Oracle. • Lack of routine penetration and no PSN code of Connection in place. • Lack of leavers policy and procedure.	The overall conclusion reached for the IT General Controls within the IT system (Oracle) is that there are non-significant deficiencies identified in IT controls relevant to the audit of the financial statements and significant deficiencies identified but with sufficient mitigation of relevant risk. We have raised two recommendations relating to the significant deficiencies, please refer to page 31.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £474.8m	Other land and buildings comprises £396m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£41m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its own in-house valuer to complete the valuation of properties as at 31 March 2021 on a five yearly cyclical basis as well as all assets over £750k. 92% of total assets were revalued during 2020/21. Management have considered alternative estimates through their discussions with the valuer Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 March 2021 by applying the percentage change identified for individual assets valued to the class of assets non-valued combined with local knowledge of known market movements to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of land and buildings was £474.8m, a net increase of £5m from 2019/20 (£471m).	The values in the valuation report have been used to inform the measurement of the land and building assets at valuation in the financial statements. In understanding how management have calculated the valuations we have: • assessed the qualifications, skills and experience of the valuer and determined the service to be appropriate. • ensured the underlying information and sensitivities used to determine the estimate were considered to be complete and accurate. • confirmed the valuer has prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates. • uplifted assets not-valued in year using Gerald Eve indices and considered local market factors to support management's assessment that there has been no material changes to the valuation of land and buildings not valued in year. • reviewed the level of disclosure in the financial statements to confirm that it is appropriate. Our audit work identified that there was a difference of £1.5m between the total assets value in the valuation report and the value disclosed in the financial statements. The financial statements have been amended for this difference. We have nothing further to report on this matter.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

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

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property £19m	The Council has a number of assets that it has determined to be investment properties. Investment properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between market participants at the measurement date) so these assets are valued every year at 31 March. The Council has engaged its in-house valuer to complete the valuation of these properties. The year end valuation (net book value) of the Council's investment property portfolio was £19m, a net decrease of £5m from 2019/20.	The values in the valuation report have been used to inform the measurement of the investment properties valuation in the financial statements. In understanding how management have calculated the valuations we have: • assessed the qualifications, skills and experience of the valuer and determined the service to be appropriate. • ensured the underlying information and sensitivities used to determine the estimate were considered to be complete and accurate. • confirmed the valuer has prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates. • reviewed the level of disclosure in the financial statements to confirm that it is appropriate. We challenged the valuer on the market evidence used to support the movement in the valuations. We have corroborated this evidence using recognised industry expert's commercial yield rates and are satisfied that the assumptions used by the valuer are considered to be appropriate. We note that in the case of some of the Council's investments that the leaseholder has ceased to make payments., although repayment plans are in the process of being agreed. If this non-payment were to to continue this could result in a significant although not material reduction in the value of Council investments. We have nothing further to report on this matter.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £552m	The Council's total net pension liability at 31 March 2021 is £532m (PY £472m) comprising the Merseyside Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019 for Merseyside Pension Fund and 2016 for the Firefighters Pension Scheme. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £34.9m net actuarial loss during 2020/21.	In understanding how management has calculated the estimate of the net pension liability we have: • assessed the use of a management's expert actuary and their calculation approach • used PwC as auditors expert to assess actuary and assumptions made by the actuary (see table below)	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.1%	2.1-2.2%	●
Pension increase rate	2.8%	2.7%	●
Salary growth	4.2%	3.95-4.2%	●
Life expectancy – Males currently aged 45 / 65	22.6 / 21	22.5-24.7 / 20.9– 23.2	●
Life expectancy – Females currently aged 45 / 65	26 . 24.1	25.9 / 27.7 24.0 25.8	●

- assessed the completeness and accuracy of the underlying information used to determine the estimate, including liaison with the auditor of Merseyside Pension Fund;
- undertook a reasonableness test of the Council's share of LGPS pension assets and the reasonableness of the movement in the estimate; and
- assessed the adequacy of disclosure of estimate in the financial statements.

Conclusion

As disclosed on page 10, the net pension liability was restated, reducing the net liability by £19.767 million as a result of findings identified during audit of the Merseyside Pension Fund. We are satisfied that the estimate of your net pension liability is not materially misstated.

We have nothing further to report on this matter.

~~Assessment~~

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision (MRP) - £11.185m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The total MRP includes a charge of £4.469m for the repayment of debt for the Merseyside Residual Debt Fund. This is offset by the repayments received by the constituent bodies for the same value as shown as capital receipts in Note 38 Capital Expenditure and Funding. The MRP calculation method adopted by the Council for supported capital expenditure incurred after 1 April 2008 is based on the expected useful life of the relevant assets using an annuity method. For unsupported capital expenditure incurred after 1 April 2008, MRP is based on the expected useful life of the relevant asset or as the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure. The year end MRP charge was £6.716m, a net increase of £639k from 2019/20.	The MRP represents 3% of the Council's overall Capital Financing Requirement of £262.6m when including the charge for the Merseyside Residual Debt Fund. The overarching requirement is for authorities to determine a "prudent" provision, rather than to follow a particular basis of calculation. If the MRP is too low, the burden of financing capital assets will fall on future generations of tax-payers. For £170m of this balance the Council has made a reduced MRP charge of £7,000 in 2020/21 which takes into account an overpayment of the provision in previous years totalling £26m which has been reprofiled over a 10 year period, effectively reducing the provision by £2.6m per year following a review of the MRP policy by external advisors Link Asset Management in 2019. We also note that the MRP has been calculated using the annuity method of 2% on the historical supported borrowing. This will result in a significant increase in MRP payments in future years. This change to the MRP profile was approved by Cabinet Members on 25 November 2019. Whilst the Council's policy on MRP complies with the statutory guidance and is approved by full Council prior to the start of each financial year, the annuity method adopted can lead to considerable increases in future years. It should also be noted that the Council is forecasting a rise in its Capital Financing Requirement during 2021/22 of £75m, which will result in an additional £2.821m MRP charge for 2022/23. It is important that future capital plans take account of the impact on revenue of the related increases in MRP. The Council should consider whether its MRP policy is still considered appropriate/prudent and has been fully incorporated into the future financial plans of the Council.	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic

Assessment

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

2. Financial Statements - 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	Auditor view and management response
Financial Position 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 achieve a balanced budget.	We have reviewed the supporting evidence in relation to the going concern basis upon with the Council has prepared its financial statements. As part of our Value For Money work we undertaken detailed reviews of the Council's financial position and held discussions with Senior Officers within the Council.	Our conclusions on the going concern basis are disclosed in detail on page 20 of this report. We will be providing detailed commentary and recommendations in the Auditor's Annual Report on the Value For Money work and the Council's arrangements in relation to financial sustainability.
Aged debtors The Council continues to hold within its debtor balances aged debtors which are no longer deemed collectable.	As part of our audit work performed on the balance sheet, we identified a number of balance sheet codes for which there were no transactions occurring during the year resulting in the opening and closing balances being the same.. Further investigation of these balance sheet codes identified that the creditors and debtors balances in relation to certain adult social care costs, netted off to below trivial which resulted in both debtors and creditors being overstated.	The Council should review its Aged debtors listings and write off those debtors which are no longer considered receivable. **Management response** *We acknowledge there are improvements and increased controls to be introduced with respect to the balance sheet and we are working hard to bring these into place, this work is ongoing and we will take this recommendation seriously and fully acknowledge the risk associated with not having fully reconciled debtors and creditors.*
Ledger listings The Council's financial system contains transaction data and relating information that is no longer considered appropriate.	It has become considerably more difficult to audit the debtors balances due to historical transactions dating back to 2007 remaining within the year end balances. This has caused considerable time pressures on both the finance team and audit team to gain an understanding of the data contained within these balances and test a sample of the debtors transactions to gain assurance over the year end balance.	The Council should review the balances held on its balance sheet codes within the general ledger to ensure that they are carrying forward the correct balances. This will be especially important giving the fact that the Council is moving to a new finance system from 1 April 2022. **Management response** *The ledger is a complete list of transactions and reconciliations would be required for all accounts which is a manual exercise, no finance system allows items to be marked as reconciled within the general ledger only the Accounts Payable and Accounts Receivable modules. We will work with the auditors to improve the process and how to provide information over the coming period, but it must be acknowledged that no finance system reconciles to provide evidence of balances only.*

2. Financial Statements - 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	Auditor view and management response
Debtors The Council was not able to provide an appropriate analysis of it's trade debtors.	The aged debtor analysis provided for audit included £90.9m of credit entries and £164.8m of debit entries. We discussed with management that it is not possible to determine the actual debtors balances at the year end from the information provided and requested that all contra entries were removed. The revised aged debtor analysis provided for audit includes debts dating back to 2008.	Clarity over the debtor transaction listings should be sought, with a view to reconciling outstanding debtors to payments received which would reduce both officer and audit time in the future **Management response** All accounts receivable debt is correctly reconciled as acknowledge on page 3, the remaining non account receivable debt is a manual reconciliation process and we will work towards providing the auditors with manual reconciliations of debt to enable them to sample appropriately.
NDR appeals provision The Council is required to make a provision against future NDR appeals.	The council is only making provisions against known appeals and then only for those that come from the 2005 and 2010 listings. Under the 2010 rating list the estimated successful appeals against NDR payments were c4% of total NDR income due., however the actual success appeals totalled £0.2m for the previous two years combined. There was an outlier in 2017/18 where £1.2m was charged to the provision which was due to the VOA working on clearing their backlog of appeals. The Council has determined that the 2017 listing should not be included in the above listings following a government revision to the business rates appeal process with the introduction of the Check, Challenge, Appeal System. We have queried this and whether a provision against appeals is appropriate. The Council has sought external advice from Analysed Local who has provided detailed estimates for potential yield loss and threats to the 2017 and 2021 listings of which the Council's share would be £12.1m. This represents an increase of £4m on the existing provision. The Council has applied a percentage of c30% to this (based on previous successful appeals) and estimates that it has underprovided by £1.87m. It has not adjusted for the assessment provided by its expert or its own assessment.	As a result in the change of the business rate appeals process, the number of cases reaching the appeals stage has dramatically reduced. However, at present the Council has only set aside a provision against future appeals (which indicates that the Council does not anticipate any successful appeals for the period 2018/19, 2019/20, and 2020/21). This is a different approach to most councils and we have asked the Council to revisit the provision. Following external advice received by the Council, we are reporting that the Council should increase its provision by up to £4m. We have included this as an unadjusted error. **Management response** Further work continues to be undertaken to establish what additional provision for unknown appeals is required, using an external provider Analyse Local, information provided to date indicates an additional provision of between £1.8m and £3.8m is required. The Council will provide a resolution to this in 2021/22.

2. Financial Statements - matters discussed with management

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

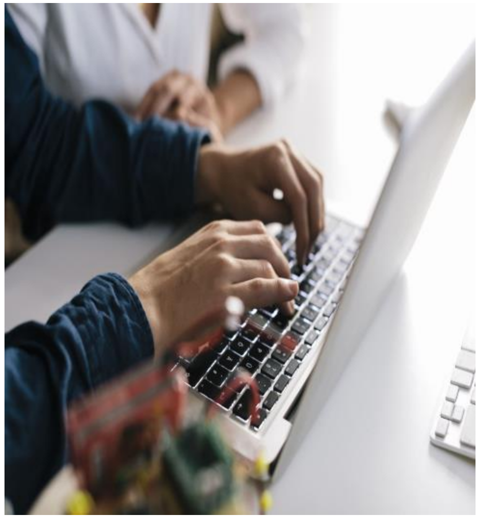
Significant matter	Commentary	Auditor view and management response
Guarantees The council has issued or is about to issue income guarantees to various developers	The Council is entering into a number of commercial activities where it is having to issue guarantees or enter into complex transactions such as PUT/Call options. These activities have significant potential liabilities for the Council. When we requested information on the liabilities and accounting implications of these transactions we identified that the Council did not readily have this information available or in the case of the accounting treatments had not prepared any papers. We have requested an accounting paper from the Council and disclosure of these matters in the financial statements. We note that investments of this kind may also require minimum revenue provision payments. The schemes are: - Legacy flats – the arrangement as we understand it involves Wirral Waters taking on a 250 year headlease with the Council committed to underleases of 50 years for 500 units and income guarantees. We note that the first 10 years are covered by a Peel guarantee. There is a sublease for management purposes to a management co. The Council can buy the units for a peppercorn rent after 50 years. This appears to be a finance lease with the Council taking ownership after 50 years. We note that the liabilities after year 10 may be substantial. - Legacy office building – this buildings are planned for completion by 2025 with a put/call option 3 years from this date. Once the building is complete the Council will need to value the call/put option and recognise any liability in the accounts. - Birkenhead Commercial District (BCD) land – there is a lease and lease back of land. We have requested more details on this matter. - BCD offices – two office blocks are being developed in BCD we need to clarify who is renting the buildings. If it is the Council and they can they buy the offices at a peppercorn rent then IFRIC12/PFI would appear to apply. At the time of issuing our report we have not received the details of the accounting treatment for these guarantees.	We consider that accounting papers should be prepared with regard to these guarantees. Following our discussions, the accounts have been amended to include appropriate disclosures with regard to these guarantees. From the information received to date, we are satisfied that the financial guarantees were not issued by 31 March 2021, therefore there is no impact on the financial statements for the year ending 31 March 2021. Appropriate arrangements should be put in place by the Council to monitor and mitigate any liabilities arising from these schemes. The Council need to seek external consultancy on the accounting given this is a complex and specialised area.

2. Financial Statements - 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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Risk Management Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	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.
Written representations	A letter of representation has been requested from the Council, which is appended Specific representations have been requested from management in respect of the appropriateness of the prior period adjustments.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking, investment and borrowing institutions. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. Results There is a presumption under Practice Note 10 that local authorities are a going concern as the accounting framework assumes that statutory services will continue to be delivered by the public sector. However, auditors are required to consider whether a material uncertainty related to going concern exists. The Council requested Exceptional Financial Support from the government in 2020/21 and 2021/22 to help balance its budget by raising capital borrowing to support some of its revenue expenditure. The Council was granted a Capitalisation Directive for 2020/21 of £9m of which the Council required £6.5m in order to achieve a balanced position at the end of 2020/21. A conditional offer of £10.7m for 2021/22 was granted of which the Council expects to require £7.3m. This need to additional support has arisen not just as a result of Covid-19 but also due to the Council avoiding making difficult financial decisions and using the General Fund reserves to meet unexpected events. This has led to General Fund reserves depleting from 8% of net revenue expenditure in March 2018 to anticipated 3.3% by March 2022. A generally acceptable prudent measure is a minimum of 5% net revenue expenditure to be held in General Fund reserves.

2. Financial Statements - other communication requirements

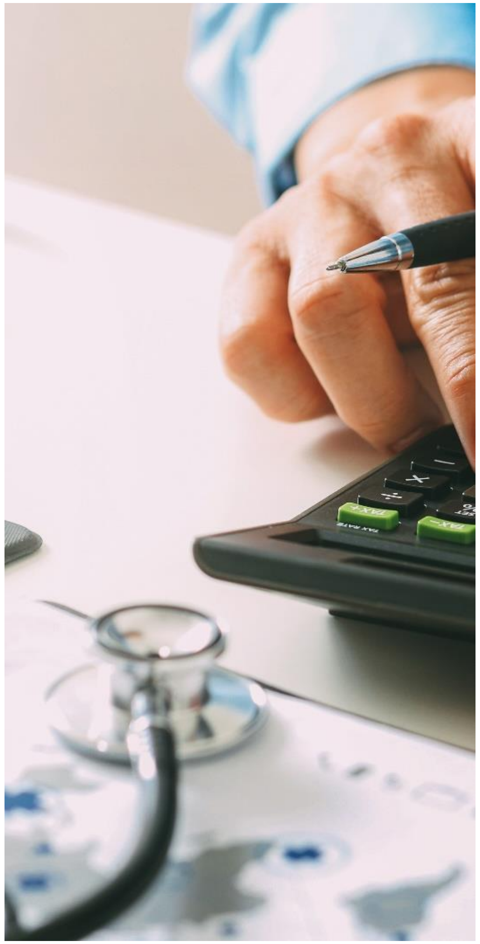
Our responsibility

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).

Issue	Commentary
Going concern	The Medium Term Financial Strategy approved by Members of the Council to address the financial challenge is not explicit about the scale of the challenge or the touch choices that will need to be made to deliver it and as a result a new Medium Term Financial Strategy was agreed by the Policy and Resources Committee on 1 December 2021 that addresses these concerns. Considerable savings are required over the medium term and the Council has failed to deliver over 25% of its savings in the last two years, resulting in the falling reserves levels. The Capitalisation Directive granted to the Council will bridge the budget gap in 2021/22 . As a result of this Exceptional Financial Support and the assumption under PN10 that statutory services will continue we have concluded that there is no material uncertainty with regard to the Council being a going concern. We, however, have continuing concerns with regard to the Council's financial sustainability and continued action is needed by the Council to resolve its budget gap. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement, 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. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We requested that the Council update its Annual Governance Statement to reflect the findings of the external reviews carried out on behalf of the Department of Levelling Up and Communities in relation to the Finance and Governance. We have nothing further to report on these matters



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	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. As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statement. We are aware that the 2020-21 WGA Data Collection Tool will not be available until at least the end of January 2022. We will be unable to complete our work in this area before this date.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of **Wirral Council** in the audit report, as detailed in Appendix E, due to our ongoing Value For Money work and WGA.

3. 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.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at 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 the three specified reporting criteria.

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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G. We expect to issue our Auditor's Annual Report by 31 January 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risks set out in the table below. Our work on these risks are underway and will be reported in the Annual Audit Report.

Risk of significant weakness
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 Limited Partnership. It has also made other long term investments such as the Public Sector Social Impact Fund. 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.

5. 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

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.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

5. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to November 2021, as well as the threats to our independence and safeguards that have been applied to mitigate these threats..

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	7,000	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 is £7,000 in comparison to 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	18,600	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 is £18,600 in comparison to 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

5. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to November 2021, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
CFO Insights Subscription	12,500	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 is £12,500 in comparison to 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.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Risk Management Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified eight recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	**MRP** The Council is required to make a Minimum Revenue Provision (MRP) against borrowing. MRP represents 3% of the Council's overall Capital Financing Requirement of £262.6m when including the charge for the Merseyside Residual Debt Fund. For £170m of this balance the Council has made a reduced MRP provision of £7,000 in 2020/21 which takes into account an overpayment of the provision in previous years totalling £26m which has been reprofiled over a 10 - year period, effectively reducing the provision by £2.6m per year. We also note that the MRP has been calculated using the annuity method of 2% on the historical supported borrowing. This will result in a significant increase in MRP payments in future years. The policy has been approved by members. It should also be noted that the Council is forecasting a rise in its Capital Financing Requirement during 2021/22 of £75m, which will result in an additional £2.821m MRP charge for 2022/23. It is important that future capital plans take account of the impact on revenue of the related increases in MRP. Whilst the Council's policy on MPR complies with the statutory guidance we consider that the Council should reconsider whether its MRP policy is prudent.	The council should review is MRP policy to take account of the issues raised and should ensure that future revenue plans take account of the uplifts in MRP and the impact on MRP of the capital programme. **Management response** The Council has a transparent MRP policy which is approved by Members annually, any changes have been brought to members attention, including past and future profiling.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
High	**Commercial guarantees** The Council is entering into a number of commercial activities where it is issuing guarantees or entering into complex transactions such as PUT/Call options. These activities have significant potential liabilities for the Council. We also note that investments of this kind may also require minimum revenue provision payments. When we requested information on the liabilities and accounting implications of these transactions we identified that the Council did not readily have this information available or in the case of the accounting treatments had not prepared papers. We have requested accounting papers from the Council and disclosure of these matters in the financial statements. More detail is provided on page 8.	The Council should review the guarantees that it has issued and ensure that it has appropriate contingency plans should the capital schemes not be successful. Future use of guarantees should only be made with the approval of Cabinet. The decision should be supported by appropriate due diligence and accounting papers. Account should be taken of the relatively weak financial position of the Council. **Management response** All commercial schemes that the council considers entering into either have been, for schemes already approved, or will be subject to detailed business cases which will require approval through the internal officer governance route and final approval by Committee. Any current schemes will have been approved either through Cabinet previously or Committee. The Financial and Commercial cases of the Business Case will address the risks, liabilities and accounting implications such schemes present to the council as well as the opportunities for income generation through particular transactions. All new schemes will be subject to the preparation of accounting treatment before approval and for existing ones this is currently being compiled
High	**Business Rate Appeals** As a result in the change of the business rate appeals process, the number of cases reaching the appeals stage has dramatically reduced. However, at present the Council has only set aside a provision against future appeals (which indicates that the Council does not anticipate any successful appeals for the period 2018/19, 2019/20, and 2020/21). This is a different approach to most councils.	We have asked the Council to revisit the provision. At the time of writing the report the Council is seeking advice on this matter.. **Management response** The provision has been revisited using information from Analyse Local as set out on page 19 and we will work with the auditors to ascertain the appropriate level of provision

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
High	**Oracle system configuration access grant to an excessive number of users, including non-IT staff / end users.** During our audit we observed that 53 users have the necessary access rights to change system configurations such as the number of concurrent managers, cross validation rules, profile options (including password parameters), profile system values and key flex fields. The risk is that assigning excessive privileged access roles to more users than required increases the risk that system-enforced internal control mechanisms could be by-passed resulting in users being able to: • Make unauthorised change to system configuration parameters. • Create unauthorised accounts. • Make unauthorised updates to use account privileges. This issue was also raised in the prior year audit findings, see page 31.	It is recommended that management: • **Perform a review of all users and their access rights in Oracle and confirm if these align with their designated roles and responsibilities.** • **For those users identified as no longer needing access rights to change system configurations, then these access rights should be revoked with immediate effect.** • **Always assign access to any application on the principle of least privileges.** **Management response** It looks like the majority of uses identified in this section are either IT staff or senior application users who require privileged access to be able to undertake their roles and responsibilities. We will carry out a review of the users identified and determine if they require the access they currently have to be able to carry out their work. Responsibilities which no longer required by users will be end dated.
High	Inappropriate segregation of duties as developers have access to the production environment within Oracle We have noted that 2 out of 12 users with system administrator rights had also been granted the application developer role in both the development and production environments; which has created a segregation of duties issue. It is appreciated that with a small IT team, it is difficult to prevent having a segregation of duties issue. The risk that inappropriate or unauthorised changes could be implemented, adversely impacting the integrity and security of the underlying data or functionality of Oracle. This issues was also raised in the prior year audit findings, see page 31.	It is recommended that management restrict the use of the application developer role on a need-to-use basis. Permission should be assigned for a pre-agreed window to implement a change into production and then revoked again. Activity during the implementation window should be monitored closely. **Management response** The role of Application Developer has been removed from the two accounts identified in this year's review.

Controls
- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

We have identified five recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	**Debtors Balance** There are a number of historical balances included within the debtor's year end balance on the balance sheet. The risk is that the Council is overstating it assets where there is a low expectation of receiving the income due to the Council.	A review of the debtor's balances should be carried out and old debts where the likelihood of receiving the income is low should be written off. **Management response** The Council will review the debtors and determine if any need to be written off or provide for them through an expected credit loss.
Medium	**Ledger Balances** The Council's financial system contains transaction data and relating information that is no longer considered appropriate.	The Council should review the balances held on its balance sheet codes within the general ledger to ensure that they are carrying forward the correct balances. This will be especially important giving the fact that the Council is moving to a new finance system from 1 April 2022. **Management response** The balances will be reviewed for debtors and creditors (excluding Accounts Receivable and Accounts Payable) and appropriate action taken based on value and risk.
Medium	**Reconciliation of the Fixed Asset Register to the General Ledger** Differences have been identified between the fixed asset register and the general ledger due to way in which the fixed asset register recognises valuation movements, in particular for downward valuations which it records as impairments.	A review of the controls and processes within the fixed asset register should be carried out to ensure all revaluation movements are accounted for correctly without the need for additional manual adjustments in order to reconcile to the General Ledger at the year end. **Management response** The third party software can only treat downward valuation in one way and therefore a manual adjustment is required in the General Ledger to reflect the correct accounting treatment. A reconciliation of the movements and correlation to the software system will be looked at. The new ERP system operates in the same way and we are working with the implementation parties to identify a solution.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Wirral Council's 2019/20 financial statements, which resulted in four recommendations being reported in our 2019/20 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Journal control procedures** 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 **Management response** 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.	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 management have found failings they have requested the senior finance manager reviews those journals and sends confirmation to the Policy, Strategy and Financial Accounts Senior Finance Manager they are satisfied they are correct. Our review of the journals posted during 2020/21 has provided us with assurance that the journal controls process introduced is now operating effectively.
✓	**Segregation of duties conflicts between Oracle system administration and finance roles** 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. **Management response** 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.	By removing the applicable responsibilities the concerns raised have now been addressed.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Oracle system configuration, access granted to an excessive number of users, including non-IT staff / end users** 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 administrators, of which there are 13 accounts **Management response** We are obviously concerned regarding the large number of accounts which have been identified as having this issue and also the marked increase since last year's report. We have only made a small amount of account and responsibility changes throughout the year which would not account for the large increase in accounts being identified. It appears that a large number of users have been identified this year as a result of having access to the menu MBOW_CUST_CONTACT1 which has the menu option Others (CSX OTHERS). We have checked the system and our original build documentation, and this menu option has been available since 2005.	The system configuration changes have now been implemented.
X	**Completeness of the Fixed Asset Register** Our existence testing of the Council's fixed assets results in a number of assets no longer existing. The impact of this is an overstatement of the Council's assets and corresponding reserves. **Management response** Management have put in place for 20/21 a process to review and identify assets no longer in existence.	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 our existence testing on the Council's fixed asset register no issues were identified over the existence and completeness of the assets held. Work is still ongoing on this issue due to findings identified during the 2020/21 audit in relation to the Fixed Asset Register being out of line with the General Ledger.

Assessment

✓ Action completed

X Not yet addressed

C. 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 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
CIES – depreciation was not correctly journaled into the gross expenditure following the reconciliation of the fixed asset register to the general ledger.	4,028	-	4,028
Revaluation of the Council's Land and Buildings . A difference was identified between the valuation report and the closing balance in the fixed asset register	(2,481)	(1,547)	(2,481)
Cash and cash equivalents – the overdraft has been disclosed separately within current liabilities therefore increasing current assets.		(8,586)	-
Cash and cash equivalents – the overdraft has been disclosed separately within current liabilities therefore increasing current liabilities.		8,586	-
Remeasurement of the Council's share of the Pension Fund Assets	19,767	(19,767)	19,767
Overall impact	**£21,314**	**£(21,314)**	**£21,314**

C. 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	Auditor recommendations	Adjusted?
Comprehensive Income and Expenditure Statement The statement should not include internal recharges in line with Code requirements	The gross income and gross expenditure should be adjusted to remove the internal recharges. The impact of this is to reduce the income and expenditure by £16m for 2020/21 and £13m for 2019/20 which is a prior period adjustment. Management response Agree to amend	✓
Accounting Policies A small number of amendments were required to Note 1 to ensure the accounting policies meet the code requirements	The accounting policy for treatment of Covid-19 grants has been expanded to distinguish between grants accounted for under an agency or principal basis Management response Agree to amend	✓
Note 18 Financial Instruments	The disclosures required adjusting to meet the code requirements and correct classifications for financial assets and liabilities Management response Agree to amend	✓
Note 34 External Audit Costs	The narrative disclosures required adjusting to reflect the correct prior year additional audit costs Management response Agree to amend	✓
Note 36 Grant Income	The disclosures required adjusting to include the correct allocation of grants as credited to services. This is a memorandum note only with no impact on the net provision of services. Management response Agree to amend	✓

C. 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 unadjusted misstatements

All unadjusted 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 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Business rate provision – see page 19. We estimate that the Council has underprovided for Business Rate Appeals by up to £4m. The Council considers that the likely figure is £1.87m. The Council have declined to adjust for this matter. The impact of the change would be to reduce the funding available to the Council from Business Rates which in the long term will reduce its reserves.	Expenditure 4,000	Reduction in reserves - £4,000	4,000
Overall impact	£4,000	-£4,000	£4,000

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	198,445	218,445
Total audit fees (excluding VAT)	£198,445	£218,445

The audit fees reconcile to the financial statements.

- fees per financial statements - £257,000
- Less fees payable relating to 2018/19 and 2019/20 audits – (£75,000)
- Add ongoing additional fees – £16445
- total fees per above £198,445

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services e.g. Grant Claims	25,600	TBC
Other – CFO Insights	12,500	12,500
Total non-audit fees (excluding VAT)	**£38,100**	**£TBC**

The non-audit fees reconciled to the financial statements

- Fees per financial statements - £50,000
- Less fees payable relating to former objection - £15,082
- Less accrued for prior year agreed grant claim fees - £22,300
- Less Other CFO Insights - £12,500

The audit fees note within the financial statements will not include the £20,000 additional proposed fees as this was not agreed with the Council until November 2021.
The additional costs are as a result of the issues we encountered during the audit specifically relating the difficulties in obtaining appropriate transaction listings from which to sample test from, the increased level of challenge regarding the assumptions used for the valuations of Land and Buildings and Investment Properties and the internal recharges.

E. Draft Audit opinion

Our audit opinion is included below.

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

Independent auditor's report to the members of Wirral Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Wirral Council (the 'Authority') for the year ended 31 March 2021, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure 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 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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 are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

E. Draft Audit opinion

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Annual Governance Statement and the Statement of Accounts other than the financial statements, and our auditor's report thereon and our auditor's report on the pension fund financial statements. 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 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 the 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 in April 2020 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 'delivering good governance in Local Government Framework 2016 Edition' 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.

Opinion on other matters 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, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities set out on page 35, 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 Chief Finance Officer. The Chief Finance Officer 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer 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 Chief Finance Officer 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 and Risk Management 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.

E. Draft Audit opinion

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, Local Government Act 2003 and the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.

• We enquired of senior officers and the Audit and Risk Management Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

• We enquired of senior officers, internal audit and the Audit and Risk Management committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

• We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to management override of control, in particular journals, management estimates and transactions outside the course of business

• Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Chief Finance Officer] has in place to prevent and detect fraud;

- journal entry testing, with a focus on the material year end transactions and manual journals posted during the year with high risk characteristics;

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property and defined benefit pensions liability valuations; and

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

• These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

• The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment property and defined benefit pensions liability valuations.

• Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government sector

- understanding of the legal and regulatory requirements specific to the Authority including:

- the provisions of the applicable legislation

- guidance issued by CIPFA/LASAAC and SOLACE

- the applicable statutory provisions.

E. Draft Audit opinion

• In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework .

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

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

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 undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

• Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;

• Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and

• Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

E. Draft Audit opinion

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Wirral Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report '
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements.

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:

Mark Stocks, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

Date:

F. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP

Birmingham

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Sirs

Wirral Council

Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Wirral Council for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include […]. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering 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 estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

F. Management Letter of Representation

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. The prior period adjustments disclosed in the Comprehensive Income and Expenditure Statement and Note 13 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xv. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

a. the nature of the Council means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

Information Provided

xvi. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xvii. We have communicated to you all deficiencies in internal control of which management is aware.

xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvi. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Risk Management Committee at its meeting on [ENTER DATE].

Yours faithfully

Name……………………………

Position………………………..Date……………………………**Signed on behalf of the Council**

G. Audit letter in respect of delayed VFM work

Chair of Audit and Risk Management Committee

Wirral Council

30 November 2021

Dear Chair

Under the 2020 Code of Audit Practice, at Local Authority Bodies we are required to issue our Auditor's Annual Report at the same time as our opinion on the financial statements, or where this is not possible, issue and audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has on both prepares and auditors of accounts to complete their work quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure our value for money. We now expect to publish our report no later than 31 January 2021.

For purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours sincerely

Mark Stocks

Partner

Grant Thornton

grantthornton.co.uk