Grant Thornton

The Annual Audit Letter for Wirral Metropolitan Borough Council

Year ended 31 March 2019

January 2020

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Wirral Metropolitan Borough Council (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Risk Committee as those charged with governance in our Audit Findings Report on 18 November 2019.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council’s financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council’s financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council’s financial statements to be £12,986,000 which is 1.8% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 29 November 2019. A number of amendments had to be agreed to the initial draft accounts. The Council reversed an incorrect entry to its Minimum Revenue Provision which resulted in a £26m reduction in available reserves. In our view there is scope to improve the Council’s arrangements for preparing its financial statements going forward. The Council has responded positively to the recommendations made and has prepared an action plan to drive improvement.
Whole of Government Accounts (WGA)	We completed work on the Council’s consolidation return following guidance issued by the NAO.

Executive Summary

Value for Money arrangements	We have completed our risk based review of the Council's value for money arrangements. Since OFSTED rated the Council's Children's services as inadequate in 2016, the Council has demonstrated a steady improvement in the service provided as indicated in the OFSTED monitoring reports for 2018/19. The September 2018 report stated 'The quality of social work practice in each case was effective and making a difference'. OFSTED carried out a full re-inspection of the Council's Children's Services in June 2019 which resulted in an improved rating of 'Requires Improvement'. The report confirms that improvements have been made and a better service for children is being delivered. Not all areas have improved at the same pace but the report acknowledges that the Council has clear plans to address these areas. The Council continues to face a challenging financial position however it has made progress in addressing the challenges faced. Detailed savings proposals by portfolio were agreed to achieve savings of £45m in 2019/20 and there is a significantly reduced reliance on one-offs including the planned use of reserves. The latest projections indicate budget pressures of more that £7m in 2019/20 and as a result action has been taken to curb non-urgent spending. Looking ahead it is important the Council continues to take appropriate action to ensure it manages its financial position. We also note the Council has made the decision to move away from a cabinet governance model back to a committee structure. This is a significant change and development. It is important that the Council assesses the impact and effectiveness of the change in governance arrangements, and in particular that it is clear the Council is still able to make decisions promptly and effectively to deal with the challenges faced. We have concluded that Wirral Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.We reflected this in our audit report to the Council on 29 November 2019.
Certificate	We have completed the audit of the financial statements of Wirral Metropolitan Borough Council in accordance with the requirements of the Code of Audit Practice but we are unable to certify that we have completed the audit until we resolve the objection received in relation to the Council's Lender Option Borrower Option Borrowing.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
January 2020

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £12,986,000, which is 1.8**%** of the Council's prior year gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality of £23,000 for senior officer remuneration.

We set a lower threshold of £649,000, above which we reported errors to the Audit and Risk Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit approach was based on a thorough understanding of the Council's business and is risk based. We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

The Financial Reporting Council (FRC) is responsible for reviewing and assessing the quality of local public audit work undertaken by Grant Thornton and the other audit firms. In response to the latest feedback from the FRC on local public audit work we have updated and refined our approach to the audit of PPE and Pensions Liabilities, which has resulted in additional audit procedures being undertaken. We have included fee adjustments to cover these additional procedures which are set out on page 15 of this report.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings The Council revalues its land and buildings on a rolling five-year basis. The valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£644m as at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially difference from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk which was one of the most significant assessment risks of material misstatement, and a key audit matter.	We carried out the following work: • evaluated management's processes and assumptions for the calculation of the estimate, instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • wrote to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used the by the valuer to assess completeness and consistency with our understanding; • tested, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these are not materially different to current value at year end.	The Council's land and buildings assets have been valued this year by the Council's in-house valuation team. Our work has assessed them as having a good knowledge of the Council's portfolio and they have used the information from the Asset Register and the Council's estates systems in carrying out their valuation of the assets. The assumptions used are reasonable and we are satisfied that they had access to appropriate levels of information to complete reliable valuations. The Council has revalued approximately 84% of its land and buildings assets this year, leaving a relatively small amount (£75m) that has not been formally valued during the year. For those assets not formally valued in the year, management has liaised with the valuation team to assess the potential differences between the carrying value and the fair value. We have reviewed and challenged this methodology and are satisfied that the best estimate of the level of uncertainty is below materiality. The Council revalued 100% of its investment property portfolio in line with its accounting policies. Sample testing of the revaluations provided assurance that these assets were correctly classified as Investment Properties and the movements in the valuations had been correctly recognised in the accounts. For the sample of revaluations tested, it was identified that the assets were input on to the Council's asset register as at 31 December 2018 with depreciation subsequently charged on the assets for the remainder of the year. This approach is consistent with previous years and the Council's valuers believe it is appropriate. However it is arguable that it leads to an uncertainty in the accounts. The impact of the accounting treatment is a potential understatement of the net book value of the assets by £3.737m and over statement of depreciation by the same amount. For the total population revalued the results are a potential understatement of £4.557m which is clearly not material. Whilst the matter is not material we suggest that the Council clarifies the approach going forward with its valuer.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of net pension liability The Council's pension fund 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 (£539m in the Council's balance sheet as at 31 March 2019) and the sensitivity of the estimate to the changes in the 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, and a key audit matter.	We have carried out the following work: • updated out understanding of the processes and controls put in place by management to ensure that the Council's pension fund liability is not materiality misstated and evaluated the design of the associated controls; • evaluated the instructions issued by 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 disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert); • agreed the advance payment previously made to the pension fund to the expected accounting treatment and relevant financial disclosures; and • obtained assurances form the auditor of the 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.	The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension scheme where transitional protections were given to scheme members. The Government recently applied to the Supreme Court for permission to appeal this ruling, but the permission to appeal was unsuccessful. We understand the case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud-Court of Appeal) has implications not just for the directly affected pension funds, but also for other public sector pension schemes where they have implemented transitional arrangements on charging benefits, including the local government pension scheme. Discussion have been ongoing through the year in the sector regarding the impact of the ruling on the financial statements of local government bodies. Many Councils had initially included the impact of the McCloud judgement as a contingent liability in their 2018/19 accounts. However as the picture has now become clearer there is now a general acceptance that the increased liability, where material, should be reflected in the IAS 19 figures in the balance sheet. The Council has amended its financial statements for the impact of the McCloud judgement disclosing the increase in the net pension liability of £16.7m.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Minimum Revenue Provision (MRP) accounting The Council is required to set aside a prudent provision (Minimum Revenue Provision) each year for in respect of its Capital Financing Requirement.. Independent advice received by the Council – based on changes in legislation – indicated a potential over provision in previous years due to deferred charges and long term debtors being excluded from the original calculation in 2004. In the initial draft financial statements the Council adjusted MRP by £26.36m and created a Debt re-profiling reserve. In our the Council's initial accounting treatment was not appropriate. The MRP under Sums set aside from revenue in Note 38 Capital Expenditure and Capital Financing was disclosed as £12,665k which was the total of the MRP for the Council for the year of £8,196k and the MRDF principal repayments received from the constituent authorities of £4,469k. The total did not agree to the disclosure in Note 8 'Adjustments between Accounting Basis and Funding Basis under Regulations' for the adjustment between Revenue and Capital Resources. This disclosed the statutory provision for the repayment of debt (transfer to the Capital Adjustment Account) of £8,196k. The two disclosures should equal in accordance with the CIPFA Code of Local Authority Accounting 2018-19.	We have carried out the following work: • Reviewed the independent advice received by the Council and the calculations for the assessment of the over provision. We discussed the initial accounting treatment with management. The impact is that the Council has amended the financial statements to remove the debt re-profiling reserve which has the effect of reducing usable reserves by £25.98m. • The Council has included the MRDF principal repayments in its calculation of the Capital Financing Requirement in accordance with the Local Government Reorganisation (Debt/Administration (Merseyside) Order 1988 as it is the designated Council. However the payments received from other constituent bodies should arguably be classified as capital receipts in order to comply with Regulation 7 of the Local Authority Capital Financing and Accounting Regulations 2003. This is due to the original purpose for the borrowing being for capital expenditure and still remains the same to date. We are satisfied that these payments received have been used for the purpose intended which is to reduce the Council's long-term borrowing.	Looking ahead the Council is continuing to consider the advice that it has received and is exploring options for recovering any MRP overpayment, whilst ensuring that it complies with the statutory guidance. In our view the most appropriate accounting treatment, as set out in CIPFA's Practitioners guide to capital finance in local government 2019, is to recognise the payments as capital receipts in the capital receipts reserve whilst simultaneously writing out the debtor against the capital adjustment account. There is no impact on the general fund and the net effect of the Balance sheet is nil. The amendment to Note 38 is to recognise the payments from the constituent authorities separately as 'Application of Capital Receipts £4,469k and MRP as £8,196k. We note that the sums involved are not material but do require reporting as they are above our determined assessment of what is clearly trivial. The Council has amended for both the prior year and year ending 31/3/2019.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal 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 controls, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement	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 as part of the closedown process for appropriateness and corroboration; • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	Our audit work completed has not identified any evidence of management override of controls.
Going concern material uncertainty disclosures 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).	As part of our audit work : We have considered the financial standing of the Council and reviewed management's assessment of going concern and the assumptions and supporting information. We undertook a review of the Council's financial standing; noting, there was a £0.6m underspend in 2018/19 and whilst the General Fund balances have reduced during the year, the closing balances were in line with the target level for the year of £10m. The Council has set a balanced budget for 2019/20 and updated its Medium Term Financial Strategy to 2022/23. This strategy demonstrates that the Council should have sufficient resources to meet its obligations in the medium term.	The Council's use of going concern basis of accounting is appropriate. The Council provided us with its judgements for its assessment of going concern. The disclosure of going concern basis within the financial statements is satisfactory. No material uncertainty was identified and our opinion is unmodified in respect of the going concern conclusion.

Audit of the Financial Statements

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Improper revenue recognition Under ISA 240 (UK) there is a 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.	We considered the risk factors set out in ISA240 and the nature of the revenue streams at the Pension Fund. 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 framework frameworks of local authorities, including Wirral Council as the administering authority. Mean that all forms of fraud are seen as unacceptable.	Therefore we do not consider this to be a significant risk for Merseyside Pension Fund.
Valuation of level 3 investments Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We identified the valuation of level 3 investments as a risk requiring special audit consideration.	As part of our audit work we have: • Gained an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls. • Reviewed the nature and basis of estimated valued and consider what assurance management has over the year end valuations provided for these types of investments. • Considered the competence, expertise and objectivity of any management experts used. • For a sample of investments, tested the valuation by obtaining and reviewing the audited accounts (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. We reconciled those values to the values at 31 March 2019 with reference to known movements in the intervening period.	Our audit work did not identify any significant issues in respect to this risk.

Audit of the Financial Statements

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of controls Under ISA 240 (UK) there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.	We have undertaken the following work in relations to this risk: • Review of accounting estimates, judgements and decisions made by management. • Testing of journal entries. • Review of unusual significant transactions.	Our audit work has not identified any evidence of management over-ride of controls. In particular, the findings of our review of journal controls and testing of journal entries has not identified any significant issues.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 29 November 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit. However during the audit we were presented with a number of updated draft financial statements due to the high volume of amendments required which resulted in greater time to be spent and incurred additional fees.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Risk Committee on 16 November 2019.
In addition to the key audit risks reported above, we identified a number of issues and adjustments throughout our audit that we have asked the Council's management to address for the next financial year. These are:

- The Council should ensure that its quality control arrangements are enhanced to ensure that the draft financial statements are compliant with the statutory disclosure requirements before they are published as a draft.
- The Council should ensure that it enhances its arrangements for production and review of the draft financial statements.
- The Council should review its Accounting Policies and ensure that all material balances have an appropriate accounting policy which is disclosed in line with the Code.
- The Council should review the requirements of IFRS15 and consider the impact on the 2019-20 accounts at an early stage in the process. We will work with the Council to identify these requirements and ensure compliance with the code

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in and in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Merseyside Pension Fund on 29 November 2019. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit and Risk Committee on 16 November 2019.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which did not identify any issues for the group auditor to consider on 16 December 2019.

Audit of the Financial Statements

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We received an objection to the Council’s 2015/16 accounts in relation to the Council’s Lender Option Borrower Option Borrowing. The objector requested that we prepare a public interest report and apply to the courts for a declaration that Wirral Council’s Lender Option, Borrower Option Borrowing is unlawful. We issued our provisional views to the objector in May 2019 and are considering the objector’s response before issuing our final decision.

We also received an objection to the Council’s 2018/19 accounts and also formal questions at audit. We are currently dealing with this formal correspondence.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of Wirral Metropolitan Borough Council until we resolve the objections raised as detailed above..

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:
In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

We have continued our ongoing discussions with management to ensure we understand the issues the Council faces and the potential risks we should address. The main points to note in relation to the risks identified in 2018/19 are:

- The continuing budget pressures the Council faces, with the current year end forecast as at the end of quarter 2 showing an adverse variance to budget of £7.155m which is predominately due to increased pressures on children's services, specifically the high costs of residential placements due to market trends and complex needs.
- The level of achievable savings proposed for 2019/20. The Council approved £45m savings in March 2019 to balance the 2019/20 budget. As at quarter 2 £34.9m of these savings have been achieved and or expected to be achieved. Those areas in risk of not being delivered relate to children's services the transfers of the Floral Pavilion and Golf Courses to expert providers.
- Revisions to the Medium Term Financial Strategy 2020-2025 as reported to Cabinet in November 2019. There is uncertainty over the level of funding available from the Government for 2021/22 and beyond. The Council is forecasting a budget gap of £12.2m for 2020/21. Further savings proposals are under development. We will continue to monitor this situation and it is important the Council continues to take action to improve its financial sustainability.

Overall Value for Money conclusion

The Council continues to face a challenging financial position. Whilst progress has been made in respect of achieving the necessary savings, there is still uncertainty regarding the level of funding and transfers of assets has not materialised as expected.

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial Planning and sustainability The Council continues to face an increasingly difficult financial position. The Medium Term Financial Strategy 2017-2021 set out a £132m budget gap and in July 2018 Cabinet agreed the updated Medium Term Financial Strategy with a budget gap of £45m for 2019/20 and £22m to be identified for 2020/21 to 2022/23. The Council recognises that the balanced position in 2017/18 and 2018/19 have been achieved , in part, through the use of "one-off" options including the use of balances and reserves.	We reviewed the arrangements that are in place for updating, agreeing and monitoring the Council's financial plans including the assumptions within them. We identified that that Budget Monitoring Reports are produced and presented to Cabinet on a quarterly basis. These reports include updates on revenue and capital budgets and spend. The reports provide a useful breakdown of each individual earmarked reserve as well as the overall forecasted general reserves position as at 31 March 2019. The year end outturn report provides an assessment of the adequacy of reserves which considers future demands as well as highlighting future risks and opportunities. The Council agreed a net budget of £300.5m for 2018/19 in March 2018/19 which was subsequently amended to £301.9m in Quarter 2, largely due to the increased expenditure for the Children's Services transformation programme of £1.1m. The year end 2018/19 position shows an underspend for the Council of £0.6m compared to the revised budget. This budget included the use of over £26m one-off measures to support the provision of services of which £14.3m related to the use of capital receipts. The general fund balance at March 2019 is £10.7m which is a decrease of £14.2m from the closing balance at March 2018. The Council has set a minimum general fund balance of £10m going forward which it considers to be a reasonable level in case of unforeseen financial difficulties. Overall available revenue reserves has fallen from £106m in March 2015 to £70m at March 2019. Looking forward, the revised MTFS shows a cumulative budget gap of £67m over the four years with expected savings of £45m to be achieved in 2019/20 to balance the budget. The Council will no longer be looking to rely on one off funding to meet the provision of services. It is however, anticipating income to be generated through the Growth Company, with £5m expected to be received in 2019/20.	We have established that there are appropriate arrangements in place for the in year reporting and monitoring the financial position of both the revenue and capital budgets. Whilst the financial challenges facing the Council exist, it is clear that there is a five year financial plan which aims to tackle such challenges.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Ofsted inspection Ofsted issued a report on the Council's children's services in September 2016 which rated the service as 'inadequate'. Subsequently, the Council has undertaken a range of actions, significantly increased funding to the service and worked toward securing the required service improvement. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements.	As part of our work we have: Reviewed the Ofsted monitoring reports received during 2018/19 which indicate that there has been a steady improvement since the 2016 inadequate rating. For example in September 2018 the report disclosed "The quality of social work practice in each case was effective and making a difference". The December 2018 monitoring report stated 'There has been significant work to improve the service offered to all care leavers since the inspection in 2016.' Ofsted have now issued their reinspection/follow up report (July 2019). The service is now rated as 'Requires improvement to be good'. The report confirms that improvements have been made and a better service for children is being delivered. Whilst not all areas have improved at the same pace, Ofsted acknowledge that the Council has clear plans in place to address this.	• The improvement in Children's Services throughout 2018/19 is clearly demonstrated through the monitoring reports and reinspection report. • We are satisfied that actions are appropriately monitored and reported on. • That there were adequate arrangements in place during 2018/19. .

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	March 2019
Audit Findings Report	November 2019
Annual Audit Letter	January 2020

Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	123,095	139,095	159,863
Audit of Merseyside Pension Fund	28,399	30,399	36,882
Certification of claims and returns	29,000	29,000	27,000
Total fees	**180,494**	**198,494**	**223,745**

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £123,095 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These areas are set out in the following table.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£3,000
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£3,000
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£3,000
Additional unplanned audit work	Additional unplanned audit work due to amendments to the draft financial statements.	£7,000
Total		£16,000

Fee variations are subject to PSAA approval.

A. Reports issued and fees continued

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

Fees for non-audit services

Service	Fees £
Audit related services	
- Housing Benefit Grant	24,800
- Teachers' Pension Return	4,200
- IAS 19 procedures for other bodies admitted to the pension fund (£750 per letter)	7,500
Non-Audit related services	
- CFO Insights	13,000
- ASCi pilot	0

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 table to the left summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery

- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections

- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people

- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality

- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support

- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies