The Audit Findings for Wirral Council

Year ended 31 March 2020

23 December 2020

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Your key Grant Thornton team members are:

Mark Stocks
Key Audit Partner
T: 0121 232 5437
E: mark.c.stocks@uk.gt.com

Naomi Povey
Audit Manager
T: 0161 953 6940
E: naomi.j.povey@uk.gt.com

Sana Mumtaz
Assistant Manager
T: 0151 224 2445
E: sana.Mumtaz@uk.gt.com

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 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council . The Council has had to face immediate frontline challenges from providing humanitarian aid and supporting the care sector to handling the administration of grants to businesses, closure of some schools and car parks, to the additional challenges of reopening services under new government guidelines. Council staff including those within the finance teams have been redeployed to services elsewhere within the Council to ensure responses to the emergency were appropriately delivered. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 21 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our Value for Money (VfM) approach. Further detail is set out on page 8. Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to the challenges of new remote access working arrangements to carry out the audit, for example remote accessing financial systems, video calling, physical verification of assets and completeness accuracy of information produced by the entity. The financial statements were provided to the team on 28 August 2020 when they were also published on the Council's website in order to meet the revised deadline. The financial statements were produced with the use of the CIPFA toolkit for the first time which enabled the finance team to share supporting working papers with the audit team remotely.
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 on site/remotely during September- December. Our findings are summarised on pages 7 to 27. We have not identified any adjustments to the financial statements that have resulted in a material adjustment to the Council's Net Comprehensive Income and Expenditure Statement. We have identified that the Council has included internal recharges in its Gross Income and Expenditure. This has led to a material overstatement of these balances, c£12m. The Council has adjusted for these balances. There is a residual non material error remaining. We have agreed with the Council that it will reclassify the PSSIF and CCLA funds as Fair Value Profit and Loss. At present any increases or reductions in the value of the asset would be subject to a statutory override and will not impact on income and expenditure. From 2023 this override will be removed and any movements in value will impact the Council's income and expenditure and reserve position. The Council will need to monitor this closely as the PSSIF investment cannot be exited for 10 years. Our anticipated audit report opinion will be unmodified. We propose that our audit report will include an Emphasis of Matter paragraph, highlighting the material uncertainties in asset valuations stated in the Council's accounts and in the Pension Fund accounts due to the Covid-19 pandemic. This will draw attention to this issue and is not a qualification of our audit opinion. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.

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 2020 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.	Audit adjustments are detailed in Appendix C. 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. 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; • Debtors – complete testing • BDP – clearance of review points • Other Services expenditure / Fees, charges, and other service income / EFA • completion of the partner review of audit work, including any review queries • receipt of management representation letter - see appendix F; and • review of the final set of financial statements.

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 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. The Council faces an increasingly difficult financial position. In 2019/20 the Council was only able to achieve a balanced position by drawing c£25.271m from reserves. While we note that £7m was added to other reserves, this is not a sustainable position and the Council now has limited reserves to call upon to balance its budget. We note that the Council consider that the majority of reserves were used for non recurrent expenditure. For 2020/21 the Council is forecasting a budget deficit of £14.774m. Without the Government's agreement to a capitalisation directive the Council is likely to incur a significant deficit in 2020/21 and will need to use the majority of its remaining available reserves to balance its revenue budget. For 2021/22, if the capitalisation directive is not approved, the Council may need to issue a s114 notice under the Local Government Finance Act 1988 and restrict all new expenditure. Looking forward, the Medium Term Financial Strategy 2021 sets out a £40m to £61.7m budget gap over the next five years. Officers have subsequently produced a plan (in December 2020) that will bring the Council back into financial balance by 2021/22. It is important that the Council continues to take every action possible in the coming months to reduce its expenditure, and the likelihood of a deficit, in 2020/21. We note that it is also putting in place plans to reduce its expenditure in 2021/22. These plans assume the Government's agreement to the capitalisation of revenue expenditure and would be insufficient if approval was not given. As such, the Council also needs to consider what action it would take to reduce services should the capitalisation directive not be approved. The most likely course, should the capitalisation directive not be secured, is the issue of a s114 notice under the Local Government Finance Act 1988 and a ban on all new expenditure. We note that the capitalisation directive will only provide support to the Council for 2020/21 and 2021/22. As such, the Council needs to ensure that it delivers against its revised MTFS. It will need to put it place clear plans to reduce its future recurring service expenditure and move to a balanced revenue position that does not rely on reserves. We have concluded that Wirral Council does not have proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an adverse value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 28 to 37. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.

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 2020 for those charged with governance.

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 have completed the majority of work under the but are unable to issue our completion certificate until we completed the Whole of Government Accounts return.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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.

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 had to alter our audit plan, as communicated to you on 21 April 2020 to reflect our response to the Covid-19 pandemic. This included a new significant financial statement risk.

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 11 January 2021, as detailed in a separate attachment to the agenda. These outstanding items are detailed on page 4.

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 and addendum.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	11.181m	We have determined materiality as 1.5% of gross operating expenditure for the year. This is in line with the standard approach and reflects the risks associated with the Council's financial performance.
Performance materiality	8.386m	Assessed as 75% of financial statement materiality and based on our knowledge of the Council and consideration of previous audit findings and adjustments
Trivial matters	0.559	Assessed as 5% of financial statement materiality
Materiality for Senior Officer remuneration	0.02m	The senior officer remuneration disclosure has been identified as an area requiring specific materiality of £20,000. This is due to the sensitivity of disclosures in this area.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	Management's focus has been (appropriately) on its work with the vulnerable and it has focussed the Council's resources on food aid, care sector support, PPE provision, and business grants. From an audit perspective we: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 28 August 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. • engaged the use of auditor experts for higher risk (Cat 1/Cat 2) audited bodies **Results:** Based on our work to date, we obtained sufficient audit assurance to conclude that financial forecasts and the cashflow analysis of the Council supports the ability for the Council to prepare the accounts on a going concern basis We will however be including an Emphasis of Matter paragraph, highlighted material uncertainties with regard to the valuation of land and buildings, housing, and investment properties due to the issues raised by the Council's valuers in their valuation reports. The issues raised are common across all Councils valuations. The use of an Emphasis of Matter paragraph is not indicative of any control weaknesses; it simply reflects the valuer's conclusions that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. We will include a similar emphasis of matter relating to pension fund property valuations.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
The revenue cycle includes fraudulent transactions 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, 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 the Council and Fund, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for Wirral Council's accounts. **Results:** We have however: • evaluated the Council's accounting policy for recognition of revenues for appropriateness • performed substantive testing on material revenue streams; and • reviewed unusual significant transactions. Our audit work has not identified any issues in respect of improper revenue recognition.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. 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, which was one of the most significant assessed risks of material misstatement.	We have performed the following: • Evaluated the design effectiveness of management controls over the journals; • Analysed the journals listings 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; • Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regards to corroborate evidence; • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions **Results:** 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. Whilst our testing of a sample of journals did not give rise to evidence of management override of controls, the Council should look to reviewing its journal controls processes to reduce the risk in this area. We have included a recommendation for this area, See page 40. We note that the Council has already taken action for the 2020/21 financial year and has introduced controls over journal processing.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings The Council revalues its land and buildings on a rolling five yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£645m as at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements in not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. Furthermore since we issued our Audit Plan, the impact of the Covid-19 pandemic has resulted in material uncertainties on the net liability valuation.	**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 to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code were met • used our own valuation expert Wilkes Head and Eve to evaluate the terms of the engagement for the valuer and valuation report produced by the Valuer • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • 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. **Audit Findings**: • The Council uses its own In-House Valuer 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. A sample of 20% of the assets as per the rolling programme and those considered to be of high value were revalued as at the 31 March 2020 with the Valuer undertaking site visits in order to carry out their valuations. For the remainder of the assets (£30m Net Book Value) an assessment of the expected movement values 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 2020. • We have 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 indices. This provided assurance that valuation movements are in line with expectations and based on reasonable assumptions. • The valuation certificate stated that the total assets value as at 31 March 2020 was £522m, which included the net book value of the Co-op Bebington High School which converted to Academy status from its previous Foundation status during 2019/20. The asset is no longer reflected in the Balance Sheet and Council's Fixed Asset Register and should not have been included within the total assets value in the valuation certificate. Testing confirmed that the asset had been correctly removed from the financial statements and that it was an error in the valuation certificate. A revised valuation certificate has been issued. .

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings - continued	**Disclosures regarding material valuation uncertainty** The outbreak of Covid 19 has caused uncertainty in property markets. The valuer did not initially make reference to this in the Valuation Certificate. Following discussions the valuer confirmed that the RICS Valuation – Global Standards had been adhered to and that the potential impact of the Covid-19 pandemic (leading to less certainty and a higher degree of caution in valuations than would normally be the case) had been taken into account when making the appropriate valuations. As a result, the valuer has included reference to a material valuation uncertainty in the revised valuation certificate. The material valuation uncertainty has been disclosed in Note 5 Estimation and Uncertainty of the financial statements. We consider the disclosure is sufficiently detailed to meet the requirements of the accounting standards and that it is important to a readers understanding of the financial statements. As such, we plan to draw attention to the uncertainty through the inclusion of an Emphasis of Matter paragraph within the audit report. This does not constitute a qualification of the audit opinion. We are satisfied that the value of Property, Plant and Equipment is not materially misstated within the financial statements.

Significant audit risks

Risks identified in our Audit Plan	Auditor 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 (£539m in the Council's balance sheet at 31 March 2019) and the sensitivity of the estimate to changes in the key assumptions. We have therefore identified valuation of the Council's pension fund net liability as a significant risk which is one of the most significant assessed risks of material misstatement. Furthermore since we issued our Audit Plan, the impact of the Covid-19 pandemic has resulted in material uncertainties on the net liability valuation.	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 evaluated 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 information provided by the Council to the actuary to estimate the liability • 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 liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • assessed the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud and Guaranteed Minimum Pension cases. • 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. • obtaining assurances from our audit of the 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 **Audit Findings** The fund managers for the Pension Fund's pooled investment reported that valuations of these investments were subject to 'material valuation uncertainty' as at 31 March 2020, as result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. As approximately 13.47% of the Pension Fund's assets are attributable to the Council as the administering authority for the Fund, this material uncertainty impacts in turn upon the valuation of the net defined benefit liability in the Council's balance sheet. The Pension Fund Auditor has included an emphasis of matter in the audit report drawing attention to a material valuation uncertainty relating to the Fund's property portfolio. This has resulted in additional disclosures in the Council's financial statements for Note 5 – Assumptions made about future and other major sources of estimation uncertainty. We will also be including an emphasis of matter paragraph in the auditor's report drawing attention to this material valuation uncertainty. This does not constitute a qualification of the audit opinion. MHCLG is consulting on a remedy for the McCloud judgment that we reported upon last year. The Council's actuary has made assumptions in respect of the liability to reflect the proposed remedy. At whole fund level, the Council's actuaries expect the McCloud remedy to have a negligible cost impact and on these grounds we are satisfied that no amendments or disclosures are required.

Significant findings – other issues

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 control deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation has now been delayed by two years Although the implementation of IFRS 16 has been further delayed to 1 April 2022 audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect 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 Note to the financial statements the title, date of initial application and the nature of changes in accounting policy which would arise from IFRS 16. Management has estimated that the impact based on current operating lease non-cancellable obligations is £2.1m which will be brought onto the balance sheet for 2021/22. This would be immaterial to the financial statements based on current materiality.	Due that the implementation of the standard has been further delayed 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.
Existence of vehicles, plant and equipment The Balance Sheet includes £14.5m of vehicles, plant and equipment which is disclosed separately in Note 14 to the financial statements. To gain assurance over the existence of this balance, our audit approach involves testing a sample of the assets for proof of existence through physical verification.	The audit testing carried out identified one item of vehicles, plant and equipment which could not be located and resulted in extending the sample of assets tested. The outcome of this additional testing was that a further three assets could also not be located. As a result of the audit testing Management carried out a review of the vehicles, plant and equipment recorded on the Council's fixed asset register which resulted in assets to the value of £895k which have been identified as no longer in existence.	The value of the assets no longer in existence is above trivial but below materiality. Management have made the decision not to adjust as the value does not materiality misstate the accounts. The fixed asset register and accounts will be corrected in 2020/21. We recommend a review of the fixed asset register is carried out in 2020/21 to ensure that it accurately represents the assets owned by the Council.

Significant findings – other issues

Issue	Commentary
Financial Instruments The Council invested £10m in a new pooled investment fund during 2019/20, the Public Sector Social Impact Fund. The fund has been set up by Warrington Borough Council and Atlana Wealth and the Council considers this investment to be a long term strategic investment held to receive regular dividend income and not for growth or to sell. The purpose of the fund is to invest in UK based enterprises with a social impact space. The Council has an existing investment valued at £0.9m as at 31 March 2020 in the CCLA pooled investment vehicle.	Management made an irrevocable election, upon initial purchase in accordance with IFRS 9, to designate the investment as Fair Value through Other Comprehensive Income as it considered the investment to meet the definition of equity instrument. A review of the pooled investment fund was carried out and it was determined that the investment does not meet the definition of equity instrument. The equity Fair Value through Other Comprehensive Income designation is only available to the holder (the Council in this instance) if from the issuer's perspective of the same instrument meets the definition of equity as defined by IAS 32. It is of our view that it does not due to the fact the Council will be able to demand the investment back at the end of the term of the investment period and the issuer cannot refuse. In our Audit Findings Report for 2018/19 we reported that our view was that the CCLA investment did not meet the definition of equity for the issuers and so the designation is inappropriate. At the time we considered the Council's treatment, which was based on external independent advice to be a departure from the Code, although these assets and related gains and losses were not material at the reporting date. This is still our view. We have discussed our views with management who have made the decision to adjust the accounts for these findings and to reclassify both the Public Sector Impact Fund and CCLA investments from Fair Value through Other Comprehensive Income to Fair Value through Profit and Loss. At present any increases or reductions in the value of the asset would be subject to a statutory override and will not impact on income and expenditure. From 2023 this override will be removed and any movements in value will impact the Council's income and expenditure and reserve position. The Council will need to monitor this closely as the investment cannot be exited for 10 years.
Comprehensive Income and Expenditure Statement – inclusion of internal recharges 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). The inclusion of internal recharges results in the CIES not complying with the Code as internal recharges do not meet the definitions of income and expenses because 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.	Management has carried out an initial review of the 'Spreadsheet' journal source of the General Ledger where adjustments are posted. This initial review identified £13m of internal recharges which were included in both the income and expenditure sides of the CIES. The impact of this is a material misstatement of a qualitative nature due to both the income and expenditure within the CIES being overstated. Management have adjusted for this matter. Our work in this area is still ongoing to gain sufficient assurance that the correct income and expenditure is disclosed in the Council's financial statements.

Significant findings – other issues

Issue	Commentary
Onerous contract in relation to the PFI liability As a result of the closure of the former Kingsway Academy School, the Council still has a contractual obligation to make the PFI unitary payments to the PFI Partner, Wirral Schools' Services Ltd. The Council currently includes this liability within the full balance of the lease liability. The Council considers that the school will be vacant for a period of three years. An agreement has been made with the Department of Education that it will support the Council for a period of three years once the school building returns to the Council's legal ownership by contributing towards the unitary payments, a total of £1.5m. There remains a shortfall for which the Council is liable for.	In our view this represents an onerous contract because the Council has unavoidable contractual costs for which it receives no service potential. The three year unitary payment apportioned to Kingsway Academy less the Department for Education's contribution should be recognised as a liability on the balance sheet with the costs charged to the CIES. The Council already recognise in full the financial liabilities associated with the PFI scheme. However, it has not provided for the service element of the onerous contract. The impact is that there is an under provision for the onerous contract which although is not material is estimated to be above trivial. We estimate that this is £0.6m over the 3 year period that the Council considers the school will be vacant for. If the period of vacant possession continues beyond this timeframe then the estimate of the onerous contract would increase further. Management consider that the amount is not material and have determined that they will not adjust for it. We have classed this as an unadjusted error. The Council needs to ensure that the school is brought back into use as soon as possible to ensure that it is getting appropriate value from the asset and to avoid a significant onerous contract charge to the CIES.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £471m	Other land and buildings comprises £445m 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 (£26m) 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 in house Valuer to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. 42% of total assets were revalued during 2019/20. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 5. The valuation of properties valued by the valuer has resulted in a net increase of £12.8m. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 31 March 2020, by applying the percentage increase 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. Investment property and surplus assets are requirement to be valued annually and at fair value.	• We have assess the Council's in-house valuation team to be competent, capable and objective with appropriate separate reporting lines to avoid management bias. • We have carried out completeness and accuracy testing of the underlying information provided to the valuer to determine the estimate. • We have challenged the assumptions applied by the valuer in the calculations • The valuation method remains consistent with the prior year • We confirm the consistency of the estimate against the Gerald Eve market movement report, by creating an expectation of valuation movements based upon Gerald Eve market index data and comparing to actual valuation movements recorded. • We have agreed the General Fund valuation report to the Fixed Asset Register and Statement of Accounts.	● (green)

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Auditor commentary
Land and Buildings – Other - £471m	We have used Wilks Head and Eve as our auditor expert to assess the valuer and assumptions made by the valuer – see table below for the work completed and our responses:

Area of review	Wilks Head and Eve comment	Audit team follow up	Assessment
Review of whether the valuation reports have been prepared in line with relevant legislation.	The valuation certificate outline that the valuations have been provided in line with the RICS valuation – Global Standards which incorporate the International Valuation Standards (IVS) and the RICS UK National Supplement. The Report also include all the expected elements required.	N/A	● GREEN
Nature of and source(s) of information upon which the valuer will rely	The valuer has not outlined the nature and source of any relevant information that is to be relied upon and the extend of any verification that will be undertaken during the valuation process.	Our work includes review of and challenge of the source information and no issues have been identified in relation to this area.	● GREEN
Disclosure of assumptions and special assumptions used in the valuation	The valuer has not outlined the general assumptions which have been adopted as part of the process.	The individual asset valuation reports contain the detail of the general assumptions and we have shared as sample of these reports with our audit expert for comment.	● GREEN
Material uncertainty	The valuer has not specifically referenced the RICS guidance in relation to material valuation uncertainty with the valuation report, although they have referenced that the current Pandemic may have a material impact on the valuations completed and the situation will be monitored moving forward.	A revised valuation certificate has been provided to include the appropriate material valuation uncertainty as a result of the Covid-19 pandemic.	● GREEN

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Investment Property £24.68m	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 £24.68m a net decrease of £2.68m from 2018/19 (£27.36m). Management and their valuer have taken into account available market data at 31 March 2020. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's Investment Property at 31 March 2020 as a result of Covid-19. The Council has included disclosure of this in Note 4.	• We have engaged our own valuer to assist with our work and challenge in this area. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. • There have been no changes to the valuation method this year. • Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 4 in our audit report. • We have considered the completeness and accuracy of the underlying information used to determine the estimate. We have no issues to support on this matter.	

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £472m	The Council's total net pension liability at 31 March 2020 is £472m (PY £539m) 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/these schemes). A full actuarial valuation is required every three years. The Council's actuary disclosed a material uncertainty in the valuation of the Council's pension fund liability at 31 March 2020 as a result of Covid-19 (Note : only applicable if a material uncertainty was referred to in the actuary report). The Council has included disclosures on this issue in Note 4 – Assumptions made about future and other major sources of estimation uncertainty. The latest full actuarial valuation was completed in 2016. 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 £98.467m net actuarial gain during 2019/20.	• We have no material concerns over the competence, capabilities and objectivity of the actuary used by the Council. • We have used the work of PwC, as our auditors' expert, to assess your actuary, and assumptions made by your actuary. See below for consideration of key assumptions in your pension fund valuation:	GREEN

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4 – 2.3%	● (green)
Pension increase rate	2.2%	2.1%	● (amber)
Salary growth	3.6%	1.15 – 1.5% above CPI	● (green)
Life expectancy – Males currently aged 45 / 65	45: 22.5 65: 20.9	45: 22.5-24.7 65: 20.9-23.2	● (green)
Life expectancy – Females currently aged 45 / 65	45: 25.9 65: 24.0	45: 22.5-24.7 65: 25.9-27.7	● (amber)

- We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.
- We have confirmed there were no significant changes in 2018/19 to the valuation method.
- Our work confirms that the decrease in the IAS 19 estimate is reasonable

Assessment

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

Significant findings – going concern

Going concern commentary

Management's assessment

In 2019-20 the Council reported a balanced Outturn against a planned activity of £277.2m. The General Fund balance remained at £10.676m.

The Council presented the 2020-21 Budget and the MTFP to cover the period from 2020-25, both of which were approved at Cabinet in February and Council in March 2020; prior to Covid-19. As Covid-19 pandemic hit the country in late March 2020, the impact on the residents, business and the Council has predominantly affected the 2020/21 financial year, with an estimated budget variance of £24.1m at Q2.

Covid funding received for Council revenue budgets has been increased during 2020 by £41.6m. An amended revenue budget had been put to Policy and Resources and then to Full council for approval based on the Q1 forecast, a further recommendation based on Q2 forecast has been sent to Policy and Resources and then to Full Council, to recognise the additional revenue budget. The total funding expected is £160.6m (revenue budget funding of £41.6m and £119m of funding to be passported, or partially passported, to other organisations on behalf of the Government). The Council is also experiencing pressures on savings, pressures of growth in year, the additional costs borne from Covid-19 response including associated income losses, which are addressed in part by specific support from Government.

The current climate due to Covid-19 has put excessive pressure on this authority and with the restrictions on providing services it is forecast that an outturn variance in 2020/21 is estimated to be in the region of £24.1m at Q2 (before the receipt of funding for the Sales, Fees and Charges compensation scheme). The impact of the 2020-21 budget will furthermore impact future years budgets and it is estimated that this could be in the region of £40m at 18 December 2020 for 2021-22.

A number of mitigating actions have been implemented, of which one is the submission of a capitalisation directive which allows revenue costs to be capitalised, fund revenue from borrowing under special dispensation from HM Treasury. Under the capitalisation directive the Council can charge any unmet deficits for 2020/21 and 2021/22 in relation to Covid-19 to the capital programme. If the Government does support the Council's remedial action and self-intervention plans, then this will avoid the Council issuing a s114 Notice before the end of the 2020/21 financial year. With the plans that have been placed before MHCLG the Council is hoping that a s114 Notice is the last resort.

HM Treasury approving the capitalisation directive will clear deficit for 2020/21, the outcome of any decision is likely to be known towards the end of 2020. If approved the Council would need to borrow to support the capitalisation of these costs.

If the capitalisation directive is not approved, then the following options are available to the Council

- Use of the General Fund and
- Use of Earmarked Reserves and
- Cutting Council services by either 5%, 10% or 15% or
- Issue S114 notice.

On this basis the Council has concluded that the Council is a going concern.

Significant findings – going concern

Going concern commentary

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).

It has been a challenging year due to the Covid-19 pandemic which has seen the administration of grants to businesses, closure of car parks with additional challenges of reopening services under new government guidelines and the need to free up capacity of teams in addition to normal responsibilities. The Council is facing new and increased challenges to its financial sustainability. Given the sensitive nature of these disclosures, we have identified this as an area of focus in our audit.

We have detailed out assessment relating to going concern on the following pages.

We have:

- Considered the Council's overall financial position
- Considered the requirements of ISA570 and the Cipfa Code
- Considered the requirements of Practice Note 10.

Our review of Council's overall financial position

The Council faces an increasingly difficult financial position.

In 2019/20 the Council was only able to achieve a balanced position by drawing c£25.271m from reserves. While we note that £7m was added to other reserves, this is not a sustainable position and the Council now has limited reserves to call upon to balance its budget. We note that the Council consider that the majority of reserves were used for non recurrent expenditure.

For 2020/21 the Council is forecasting a budget deficit of £14.774m. Without the Government's agreement to a capitalisation directive the Council is likely to incur a significant deficit in 2020/21 and will need to use the majority of its remaining available reserves to balance its revenue budget. For 2021/22, if the capitalisation directive is not approved, the Council may need to issue a s114 notice under the Local Government Finance Act 1988 and restrict all new expenditure. Looking forward, the Medium Term Financial Strategy 2021 sets out a £40m to £61.7m budget gap over the next five years. Officers have subsequently produced a plan (in December 2020) that will bring the Council back into financial balance by 2021/22.

It is important that the Council continues to take every action possible in the coming months to reduce its expenditure, and the likelihood of a deficit, in 2020/21. We note that it is also putting in place plans to reduce its expenditure in 2021/22. These plans assume the Government's agreement to the capitalisation of revenue expenditure and would be insufficient if approval was not given. As such, the Council also needs to consider what action it would take to reduce services should the capitalisation directive not be approved. The most likely course, should the capitalisation directive not be secured, is the issue of a s114 notice under the Local Government Finance Act 1988 and a ban on all new expenditure.

We note that the capitalisation directive will only provide support to the Council for 2020/21 and 2021/22. As such, the Council needs to ensure that it delivers against its revised MTFS. It will need to put it place clear plans to reduce its future recurring service expenditure and move to a balanced revenue position that does not rely on reserves.

We have reviewed the Council's cashflow and borrowing and consider that this indicates that it has sufficient liquidity to continue to operate.

Significant findings – going concern

Going concern commentary

Work performed

Going Concern Consideration – ISA570/Cipfa Code

The Cipfa Code interprets ISA 570 for local government bodies. We have set out the relevant guidance below.

2.1.2.9 Going concern – an authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future (see also paragraph 3.4.2.23 for bodies that follow the Code but may be discontinued without statutory prescription). Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

3.4.2.23 Local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption that the financial statements shall be prepared on a going concern basis of accounting. Other bodies that prepare financial statements in accordance with the Code that may be discontinued without statutory prescription shall follow the going concern reporting requirements in IAS 1.

In summary, the Code requires local authorities, that can only be discontinued under statutory prescription, to prepare their financial statements on a going concern basis.

The international financial reporting framework on which the Code is based still requires disclosure of material uncertainties related to events or conditions that may cast significant doubt upon entities ability to continue as a going concern. We have reviewed the Council's disclosure and it has been enhanced to include the current issues. We are satisfied that the disclosures are appropriate.

Although expected to be unusual in a local government context, paragraph 25 of IAS 1 requires that when management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern these shall be disclosed within the financial statements.

Auditor commentary

We are satisfied that there are no factors that indicate that the Council is likely to be discontinued. As such it is appropriate for its accounts to be prepared on a going concern basis.

We have considered whether it would be appropriate for management to a material uncertainty disclosure. We have concluded that it is not. We have concluded that this is not required as:

- Even if the capitalisation directive is not agreed by MHCLG the Council has sufficient liquidity (through borrowing) to continue to operate.
- We note that the Council budget could also be brought back into balance quickly through the use of reserves and a S114 notice that would prevent further spending. As such it is not appropriate to include a material uncertainty disclosure.

We have considered whether an emphasis of matter in the audit opinion is appropriate. We have concluded that it is not. The Council remains a going concern and there is no material uncertainty as to it continuing to do so. As such we do not consider that an emphasis of matter is appropriate.

Significant findings – going concern

Going concern commentary

Work performed

Going Concern Consideration – Practice Note 10

PN10 states that

“In the public sector, entities may have a deficit of income over expenditure or an excess of liabilities over assets. However, the operational existence of a public sector entity will not always cease, or its scale of operations be subject to a forced reduction, as a result of an inability to finance its operations or of net liabilities. …..

Local government entities are statutory bodies that are required to maintain delivery of functions essential to the local communities, are themselves revenue-raising bodies and have the possibility, on application, of recovering losses over a period;

Cessation is most likely to result from a legislative change or a decision made by Parliament/ Assembly.

In each of these cases the operational existence of all or part of the entity ceases, but only in the case of dissolution without any continuation of operations would the going concern basis cease clearly to be appropriate. In the other cases the auditor considers the basis on which the activities are transferred, from the viewpoint of the entity that is relinquishing the assets and liabilities at the accounting date.

In line with Practice Note 10, the auditor’s assessment of going concern is based on the statutory nature of the entity and the fact that the relevant financial reporting frameworks presume going concern in the event of anticipated continuation of provision of the services provided by the entity. Therefore, the public sector auditor applies a ‘continued provision of service approach’, unless there is clear evidence to the contrary.

Paragraph 161 of PN 10 states:

“Auditing frameworks may require public sector auditors to review and report upon the entity’s arrangements for securing value for money and in such cases it may be appropriate for auditors to consider how the entity ensures that it is able to maintain the sustainability of its services and finances. But, where auditors identify concerns about an entity’s general financial health, or its arrangements for maintaining the sustainability of its services and finances, this does not necessarily cast doubt upon the entity’s ability to continue to prepare its financial statements on a going concern basis”.

Auditor commentary

We are satisfied in taking regard to the requirements of PN10, that there are no specific factors that have occurred due to Covid 19 that would impact this Councils ability to remain a going concern.

We have assessed the financial resilience of the Council in the VFM section of this report. While we are concerned about its position we do not consider that this impacts its ability to continue to operate.

We have therefore concluded that the Council continues to be a going concern.

Other matters for communication

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	Auditor 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 significant assumptions used in making accounting estimates for property valuations material uncertainty
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.
Disclosures	Our review found no material omissions in the financial statements, however a small number of disclosure adjustments have been made to the financial statements. See page X
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided. We have experienced significant difficulties in obtaining adequate evidence to support our testing. This is predominately as a result of remote working due to the Covid-19 pandemic and Council staff not having access to physical documentation due to certain Council buildings remaining closed during the pandemic period. In addition there have been difficulties with the Finance team providing the audit team with complete and cleansed financial populations from which our sample testing is selected. This has resulted in requests for further information and sample testing to ensure adequate assurance has been obtained. We are concerned that many of our samples contained both debit and credit balances, and internal recharges. This has resulted in additional work for both ourselves and the Council, and some of our testing has been abortive and has needed to be reperformed. The Council had invested during 2019/20 in the CIPFA toolkit in order to produce a Code compliant set of financial statements with supporting working papers. Whilst we were able to initially retrieve working papers from the toolkit, we did not find the use of this tool led to a more efficient audit. However we acknowledge that this was the first year of implementation and therefore would expect the Council to have a greater understanding of the capabilities of the tool in the coming year.

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 numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
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 of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Note that work is not yet completed and the planned timescale for the work is to complete and submit the Assurance Statement by 8 January 2021.
Certification of the closure of the audit	We are unable to certify the closure of the 2019/20 audit of Wirral Council in the audit report, as detailed in Appendix E.

Internal controls

The purpose of an audit is for the auditor express an opinion on the financial statements. Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters we identified during the course of our audit are set out in the table below. These are other recommendations, together with management responses are included in the action plan at Appendix A.

Assessment	Issue and risk	Recommendations
● High	**Segregation of duties conflicts between Oracle system administration and finance roles.** The audit observed a service account which possessed conflicting IT and Finance responsibilities. This allows a wide range of access to change and configure the system, users and data therein. Uses granted administrative access should not be able to modify financial information or operate financial controls. This increases the risk of inappropriate changes to data and, of controls being circumvented.	We recommend management consider reviewing the elevated access assignment and, where possible, restricting Oracle administrator access to members of the IT department with all conflicting finance responsibilities being removed from System administrator accounts.
● High	**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. Where access to change system configuration is not appropriately limited, the risk is increased of unauthorised access or modification to confidential or sensitive data resulting in an increased risk of fraud..	Management should consider reviewing all users with system configuration capabilities assigned and where possible removing this from end users / limited access to members of IT department..

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Value for Money

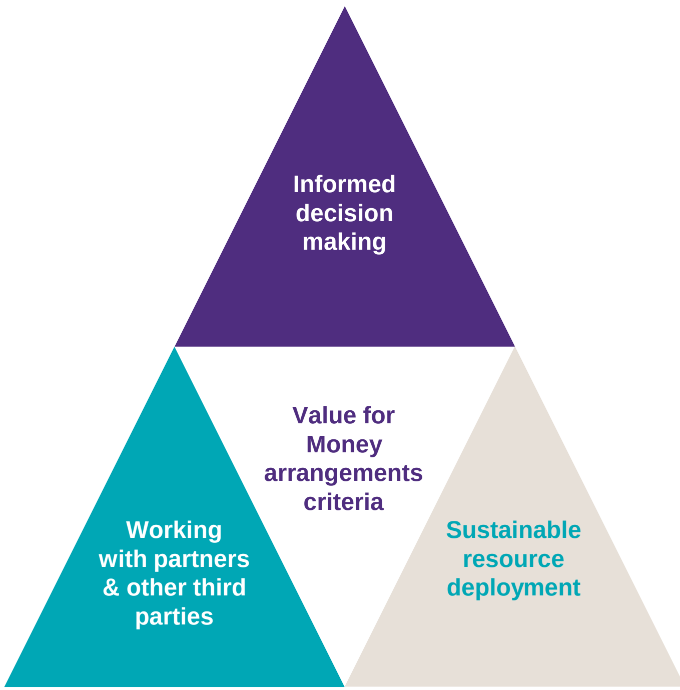
Background to our VFM approach

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

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in March 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2020.

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

We have not identified any new VfM risks in relation to Covid-19, and do not consider Covid-19 to be a significant risk given the date of the pandemic.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main consideration was the Council's arrangements for updating, agreeing and monitoring its financial plans, including the arrangements in place to monitor the identification, delivery and reporting of savings.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 21-22.

Overall conclusion

Because of the significance of the matters we identified in respect of financial planning and sustainability, we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore propose to give a qualified 'adverse' conclusion.

The text of our proposed report can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

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

Significant matters discussed with management

In the course of our work we discussed the following issues with management:

- The Council's overall financial position
- The Council's application for a capitalisation notice
- The Council's preparations should a s114 notice be required under the Local Government Finance Act 1988 (s 114 notice).

Due to our significant concerns over the Council's financial position we issued a letter to management highlighting our concerns on 3 November 2020.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Financial planning and sustainability - summary

The Council faces an increasingly difficult financial position.

In 2019/20 the Council was only able to achieve a balanced position by drawing c£25.271m from reserves. While we note that £7m was added to other reserves, this is not a sustainable position and the Council now has limited reserves to call upon to balance its budget. We note that the Council consider that the majority of reserves were used for non recurrent expenditure.

For 2020/21 the Council is forecasting a budget deficit of £14.774m. Without the Government's agreement to a capitalisation directive the Council is likely to incur a significant deficit in 2020/21 and will need to use the majority of its remaining available reserves to balance its revenue budget. For 2021/22, if the capitalisation directive is not approved, the Council may need to issue a s114 notice under the Local Government Finance Act 1988 and restrict all new expenditure. Looking forward, the Medium Term Financial Strategy 2021 sets out a £40m to £61.7m budget gap over the next five years. Officers have subsequently produced a plan (in December 2020) that will bring the Council back into financial balance by 2021/22.

It is important that the Council continues to take every action possible in the coming months to reduce its expenditure, and the likelihood of a deficit, in 2020/21. We note that it is also putting in place plans to reduce its expenditure in 2021/22. These plans assume the Government's agreement to the capitalisation of revenue expenditure and would be insufficient if approval was not given. As such, the Council also needs to consider what action it would take to reduce services should the capitalisation directive not be approved. The most likely course, should the capitalisation directive not be secured, is the issue of a s114 notice under the Local Government Finance Act 1988 and a ban on all new expenditure.

We note that the capitalisation directive will only provide support to the Council for 2020/21 and 2021/22. As such, the Council needs to ensure that it delivers against its revised MTFS. It will need to put it place clear plans to reduce its future recurring service expenditure and move to a balanced revenue position that does not rely on reserves.

Key Findings

2018/19

By the end of the 2017/18 financial year the Council's General Fund Balances were £24.856m. In 2018/19, £14.2m of these reserves were used to support children's social care services following an inadequate assessment from the CQC. In our 2018/19 Audit Findings Report (AFR) we reported that: '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 have fallen from £106m in March 2015 to £87m at March 2019.'

2019/20

Revenue

In 2019/20, the Council set a budget of £273m. The budget assumed the use of £4.5m from earmarked reserves and £7m from the use of flexible capital receipts. It subsequently increased the budget to £277m but was only able to achieve this planned out-turn by utilising a further £20.5m from reserves. This included £4.6m of DSG and Schools Balances use, £2.2m for one -off expenditure, £1.0m of Public Health reserves and £11.5m of reserves for which permanent funding was provided in the 2020/21 budget and which the council considers no longer represents a pressure. While the final outturn for the Council was a net budget spend of £277m, this was after the use of £26m of existing reserves offset by the establishment of £7.3m of new reserves. In-year an additional £1.312m of capital receipts were used to fund transformational expenditure. The use of reserves of £25.271m was used by directorates to support the budget. The budget was revised during the year with a further increase of £3.500m which was to fund additional pressures in the Adults directorate, which was supported by reductions in other directorates' budgets, except for Economic and Housing Growth. This was funded from an additional £2.000m of funding and £1.500m from reserves.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Key Findings

2019-20

Revenue

We have tracked the Council's spending below.

- Qtr 1 – the Council appears to have gone immediately off budget with a forecast overspend of £4.3m. Forecast expenditure was £289.5m
- Qtr 2 – the budget position continued to worsen into quarter 2 with expenditure increasing by another £3m. Forecast expenditure was £292.35m
- Qtr 3 – the budget position stabilised in quarter 3 with some improvement in the financial position. Forecast expenditure reduced to £291.4m
- Outturn – the budget position worsened considerably increasing to £309.27m (before use of reserves £25.271m). This is a considerable worsening of the Council's financial position.

We note that the quarterly reports build on one another and that the position is reported against the revised rather than the original budget. Members may wish to consider whether this gives them a clear view of the actual overspends in each department. We also note that the actual overspend is c£14m and that the overspend was incurred by month 3. This is significant and the Council should consider whether the budget was set appropriately, or whether budget management procedures need strengthening.

We have considered the reasons for the overspend. These include:

- Adults' - Integrated Commissioning Programme – the budget deficit was £4.542m. This relates to increasing demand and acuity in care packages.
- Children's - the Children's budget overspent by £3.065m. This was caused primarily by increased demand for Looked After Children (LAC) placements.
- Schools Dedicated Schools Grant (DSG) - Schools are funded by a ringfenced grant. There was a £3.821m adverse variance against budget. We note that this does not impact on the general fund or Council budgets.
- Business management – there are a series of adverse variances including £0.260m in advertising income, a £1.2m adverse variance in the Housing Benefit Admin Grant, £0.783m costs of pension strain contributions, £0.334m shortfall in income as a result of customers largely choosing not to buy-back Wirral Council back office services.
- Economy and housing - Income of £3.65m was originally anticipated in 2019/20 from development within the Wirral Growth company. However, the partnership refocused to ensure any development is designed in consultation with residents, members and partners to ensure the maximum financial benefits can be realised for the Council. This may result in additional income being received in future years. This will be funded by a transfer from the Economic Growth reserve which was established to cover such delays in regeneration developments.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Key Findings

2019-20 continued

Revenue

- Delivery Services: Forecast - £3.268m Adverse Variance including shortfall (£0.490m) in Sport & Recreation, car parking income (£0.300m adverse), reduction in enforced fines for environmental breaches (£0.500m adverse). We note on sport and recreation that the expectation of the 2019/20 budget was for the approved budget savings relating to the transfer of operations at the Floral Pavilion and two golf courses to other providers. We note that delays in the transfer of the Floral Pavilion and Members' recommendation to not proceed with the transfer of the Golf Courses meant that the saving target was not realised in 2019/20. We consider that these decisions should have been made prior to setting the budget.

We do not consider that the Council effectively set or controlled its budget during 2019/20.

Reserves

The Council had £97m of reserves available to it at 31 March 2020. General Fund Reserves were £10.67m, overall Earmarked Reserves were £66.768m, and capital reserves were c£20m. From our 2018/19 AFR and review of the 2019/290 outturn it is clear that the Council has used reserves to balance its budget. We do not consider that it is prudent for the Council to use non-recurrent money from reserves to fund recurrent expenditure. We note that while the remaining reserves appear to be significant, the vast majority are earmarked against known funding needs and are, therefore, not available to the Council to fund revenue expenditure. We note that the Council consider that the majority of reserves were used for non recurrent expenditure.

Our review of reserves indicates that £20m relates to ringfenced grants for capital schemes, £7m are school balances, £25m relate to COVID-19 related grants, £8m relates to insurance funds and £4m to the business rate equalisation reserve. As such these reserves are not available to the Council to cover a shortfall in its revenues or non-delivery of savings plans.

After setting aside these reserves, the Council has c£31m of reserves available to it to meet service overspends. While this appears to be a significant sum, in our experience it is not sufficient. In particular, it would not be appropriate to reduce the General Fund Reserve below £10m. This would leave the Council exposed should a financial crises arise. As such the Council has c£20m to deal with any savings shortfall. All of these are already earmarked for other purposes.

Capital programme

The Council did not deliver its capital programme, underspending by c£50m against a £90m programme. The largest variations are: Aids, adaptations and DFGs (£3.33m decrease), LED street lighting/column replacement (£5.48m decrease), Investment in properties: (£8.60m decrease), Wirral Waters Investment Fund: (£5.62m decrease), Community Bank (£4.25m decrease).

We consider that the Council should review its capital programmes and determine what is necessary given its financial position. This may include capital support for services transformation programmes that deliver revenue savings. Once an appropriate contract is in place then controls should be developed to ensure that the programme it delivered.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Key Findings

2019-20 continued

Summary

The Council continued to draw heavily from reserves to set a balanced budget in 2019/20 weakening its overall financial sustainability. We do not consider that this is sustainable and action is needed to set a budget that is not reliant on reserves. We note that the Council consider that the majority of reserves were used for non recurrent expenditure.

We note that the Council had adverse movements against the budget from quarter one. This reflects a number of pressures but also decisions by the Council not to deliver specific schemes. The Council should review its budget setting procedures to ensure that all aspects of it are deliverable and have the agreement of members. Particular note should be taken of income generation schemes, such as the Wirral Growth Company and whether the income is deliverable.

The Council should also consider how it can better forecast and manage the increasing pressures in both Children's and Adults' Social Care services. We note that the Council is taken the following action in these areas:

- C.Co Commissioned to carry out an exercise to determine the cost of care in Adults' Social Care and health
- Partners for Change: In discussion with regards to their "Three Conversations Programme" aligned with Social Work teams. The aim is to reduce demand into the care sector
- Prevention: The Council is focussing on prevention across all services.

The Capital programme does not appear to have been realistic and as a result only 44 per cent has been delivered. We consider that the Council should review its capital programmes and determine what is necessary given its financial position. This may include capital support for services transformation programmes that deliver revenue savings. Once an appropriate contract is in place then controls should be developed to ensure that the programme it delivered.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Key Findings

2020/21

Budget

The Council set a budget of £304m for 2020/21. This included financial pressures of £37.5m, offset by savings of £29.9m. The Council anticipated using £6.4m of reserves to balance its financial position. Of this £2.4m was expected to come from earmarked reserves and £4m from capital receipts for transformational spend included in revenue budgets.

Achieving this balanced position for 2020/21 was dependent on demand for services remaining in line with the Council's latest assumptions – in key areas such as Adults' and Children's Social Care - along with an ability to achieve planned asset disposals at their forecast values. Given the Council's history with these services this presented a significant risk to the Council.

Monitoring reports

The July Cabinet report on the Council's financial position reflects a deficit financial position following the impact of COVID-19. In the report the Council sets out a forecast budget deficit of c.£30.4m for the 2020/21 financial year. The report to Cabinet states:

''The year-end forecast recorded as part of June's financial monitoring activity represents an adverse variance to revenue budget of £30.432m; this comprises:

- £23.987m forecast variance in relation to revenue budget overspends (including a forecast increase to in-year, earmarked reserves of £0.546m), the adverse position has arisen largely due to matters arising through the COVID-19 pandemic.
- £2.150m forecast capital receipts, which support the revenue budget position via flexible use of capital receipts and;
- £4.296m gap in direct COVID-19 funding against forecast requirements.'

The shortfall is driven by a number of matters and relate to Neighbourhoods, Cross Cutting initiatives and COVID-19 funding. The shortfalls are as follows: Neighbourhoods (£12.7m) – this is primarily due to leisure lost income, Cross cutting initiatives (£11.7m) – the Council has been unable to deliver these initiatives, and COVID-19 Funding – a shortfall in Government funding against the Council's COVID-19 related expenditure (c.£4.2m). While we understand that some income is expected from the Government for reduced Neighbourhoods income, the remaining shortfall is significant and, if not addressed, would consume the majority of the reserves available to the Council.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Key Findings

2020/21

Monitoring reports

On 7 October 2020 the Council issued a COVID-19 update report to the Policy and Resources Committee. The Council set out that it had received £99.7m Government funding to support the emergency response to COVID-19. This comprised funding directly for use by the Council in funding the Council's emergency response of £32.5m and funding to be passported to other organisations on behalf of the Government of £67.2m. The Council reported that further funding has been provided by Government which had allowed it to reduce the 2020/21 year-end deficit to £22m.

The Council reported 'The Council must take necessary remedial and urgent action to deal with the significant deterioration in the financial position and return to a balanced budget position. Failure to consider and adopt reduction measures to the 2020/21 budget or find further funding from Government or elsewhere within year, will result in the issuing of a s.114 notice before year end.'

To mitigate the forecast deficit, the Council has applied for a capitalisation directive. This means that the Council can charge 2020/21 and potentially 2021/22 deficits to the capital programme. The Council would need to borrow funds to pay for the capitalisation and this would be repaid over time. We understand that MHCLG have informed the Council that the process to agree a capitalisation directive will take some months from the date of application, and there is no guarantee that HM Treasury will agree to the request.

The total gap over the next two years is £67m. If the capitalisation directive is not approved then the £22m 2020/21 deficit will need to be met from Council resources. The Council has outlined two options to this scenario:

- Utilise all available savings and some of the Council's general fund balances. This is high risk strategy as the general fund balances currently stand at £10.6m
- Issue an emergency budget.

The financial position was further updated in the quarter 2 monitoring report. An adverse variance to revenue budget of £24.074m was reported. However, additional COVID – 19 funding from the Government of £9.3m is expected, which will reduce the budget deficit to £14.774m.

Value for Money

Significant risk

Key Findings

2020/21

Medium Term Financial Strategy (MTFS)

The Medium Term Financial Strategy 2021 – 2026 (as reported at Policy and Resources Committee on 18th December) set out a £40m to £61.7m budget gap (before capitalisation directive) over the next five years. This is not a sustainable financial position and, as outlined earlier, the Council has also applied for a capitalisation directive for 2021/22.

Officers have subsequently produced a plan that will bring the Council back into financial balanced position by 2021/22; £16.5m is subject to public consultation and Council approval. The MTFS assumes that it is allowed to capitalise a total of £47.4m (£23.9m of revenue expenditure in 2020/21 and £23.5m 2021/22) and that it will deliver the savings included in the MTFP over the next five years. The strategy includes a number of ambitious savings plan and income generation schemes. The Council will need to ensure that it delivers these plans if it is to return to a stable financial position.

Members should note that without the capitalisation directive that it is likely that the Section 151 officer will have to issue a Section 114 notice under the Local Government Finance Act 1988 with regard to the Council's 2021/22 budget. A s114 notice requires the Chief Finance Officer, in consultation with the Council's Monitoring Officer, to report to all the Council's members if there is, or is likely to be, an unbalanced budget set. The notice bans all new expenditure, with the exception of safeguarding vulnerable people and statutory services.

Summary

The Council's financial position is of significant concern. Without the Government's agreement to a capitalisation directive the Council is likely to incur a significant deficit in 2020/21 and will need to use the majority of its remaining reserves to balance its revenue budget. For 2021/22 the Council may need to issue a s114 notice and restrict all new expenditure.

It is important that the Council takes every action possible in the coming months to reduce its expenditure and the likelihood of a deficit. It also needs to consider its future service expenditure so that it can resolve the significant underlying deficit in its expenditure.

We note that officers and members have been working on these plans for since November and proposals will be presented to the Policy and Resources Committee in December 2020. It is important that a clear set of actions is agreed at this Committee, so that the Council can ensure its financial sustainability.

MEDIUM TERM FINANCIAL PLAN BUDGET GAP OVERVIEW	21-22 £m	22-23 £m	23-24 £m	24-25 £m	25-26 £m
20-21 Budget Requirement / Baseline	**320.7**	**338.3**	**321.3**	**322.3**	**327.4**
Pressures:					
Regeneration & Place	1.5	0.3	0.4	0.4	0.4
Resources	1.0	-	-	-	-
Legal & Governance	0.2	-	-	-	-
Neighbourhoods	1.7	0.5	2.3	0.5	0.5
Childrens	3.0	3.2	2.2	2.2	1.8
Adult Care & Health	12.1	0.3	6.2	6.2	6.2
Corporate	7.6	4.6	5.8	5.5	3.2
Temporary savings from 2020/21 to be reversed in 2021/22	2.7	-	-	-	-
Total Pressures/Investments	**29.8**	**8.9**	**16.9**	**14.8**	**12.1**
Savings:					
Regeneration & Place	(1.6)	(2.8)	(1.9)	(0.6)	(3.4)
Resources	(0.5)	(1.9)	0.5	(0.4)	(1.1)
Legal & Governance	(0.0)	0.1	-	-	-
Neighbourhoods	(1.5)	(1.4)	(0.9)	(0.4)	(0.3)
Childrens	(3.4)	(4.8)	(2.4)	(1.5)	-
Adult Care & Health	(4.0)	(4.0)	(5.0)	(4.0)	(4.0)
Corporate	(1.3)	(10.9)	(6.3)	(2.8)	(4.1)
Total Savings	**(12.3)**	**(25.9)**	**(15.9)**	**(9.7)**	**(12.8)**
Total Budget Requirement	**338.3**	**321.3**	**322.3**	**327.4**	**326.7**
Funded By :					
National Non Domestic Rates:					
Business Rates Income	(72.3)	(73.4)	(74.6)	(75.9)	(77.1)
Business Rates Section 31 Grant	(12.8)	(13.0)	(13.2)	(13.4)	(13.7)
Top-Up Grant	(34.5)	(35.1)	(35.7)	(36.2)	(36.8)
Better Care Fund (BCF)	(18.8)	(19.1)	(19.4)	(19.7)	(20.0)
Business Rates	**(138.4)**	**(140.6)**	**(142.9)**	**(145.2)**	**(147.6)**
Council Tax:					
Council Tax base position	(148.9)	(152.2)	(156.7)	(161.3)	(166.1)
Annual increase in number of properties	(0.4)	(1.5)	(1.5)	(1.5)	(1.6)
Inflation	(3.0)	(3.0)	(3.1)	(3.2)	(3.3)
	(152.2)	**(156.7)**	**(161.3)**	**(166.0)**	**(170.9)**
Council Tax surplus - 19/20 - one-off impact in 20/21	-	-	-	-	-
Council Tax	**(152.2)**	**(156.7)**	**(161.3)**	**(166.0)**	**(170.9)**
Collection Fund shortfall	4.0	3.5	3.1	-	-
New Homes Bonus	(0.1)	(0.1)	-	-	-
Social Care Support Grant	(11.3)	(11.3)	(11.3)	(11.3)	(11.3)
Capital Receipts	(0.4)	(6.2)		-	-
Total other funding	**(7.7)**	**(14.0)**	**(8.1)**	**(11.3)**	**(11.3)**
Total Funding	**(298.3)**	**(311.4)**	**(312.4)**	**(322.5)**	**(329.8)**
Total Budget Gap	**40.0**	**9.9**	**10.0**	**4.9**	**(3.1)**

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Key Findings

Capital strategy

We note that the Council set an ambitious capital strategy for 2020/21. The Council stated that it would continue to provide a proportion of Capital Programme resources in support of the acquisition of properties (Strategic Acquisition Programme), viability gap funding for development costs (Wirral Waters Investment Fund) and business growth grants and loans (Business Investment Fund) to support income generation. The total schemes for the year are c£103m. We are unclear that this investment is affordable due the Council's current financial position.

Due to the budgetary pressures that the Council faces, which have been exacerbated by the COVID-19 outbreak, a review of the programme is currently underway to try and identify schemes that may no longer be financially viable, essential or deliverable. The initial stages of this review have resulted in scheme reductions totalling £0.55m and the reprofiling of budget into future years of £43.6m. We understand that further reductions and/or deferrals of budget will be made as the review continues. We consider that this action is appropriate. In particular, the Council should consider whether it is appropriate to continue with its proposed investment schemes.

We note that the Council is still planning to borrow an additional £15m to finance its capital programme. Given the current financial position we recommend that the Council should reconsider its planned borrowing, prioritising those schemes that will deliver revenue improvements..

Borrowing

We have considered the Council's level of borrowing. In normal circumstances we would not be concerned. But we note that net indebtedness of the Council is planned to rise and will draw further on the Council's revenue position. In determining whether to borrow further we recommend that the additional costs of borrowing are more than offet by the resulting revenue savings from the capital scheme.

	31/3/2019 Actual	31/3/2020 Forecast	31/3/2021 Estimate	31/3/2022 Estimate	31/3/2023 Estimate
	£000	£000	£000	£000	£000
Debt	312,165	321,896	345,325	339,069	340,541
Capital Financing Requirement	345,788	360,776	401,729	398,429	381,778

We also consider that the Council's level of temporary borrowing c£36.4m as at 30 November 2020 is too high in its current circumstances. We note that this has been reduced from £146.8m (which was secured to meet the short term liquidity needed due to Covid-19). We consider that the Council should focus on long term strategic borrowing rather than relying on short term borrowing.

Summary

The Council should reconsider its capital programmes, borrowing and treasury management strategy in the light of its current financial position. The Council should consider whether targeted capital expenditure can support service transformation and the delivery of revenue savings.

Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in 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.

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 2020 as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	4,500	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 £4,500 in comparison to the total fee for the audit of £146,445 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 is substantially complete, 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	17,800	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 £17,800 in comparison to the total fee for the audit of £146,445 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.

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 [current date], as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Non-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 £146,445 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 fees have not been reflected in the accounts because of the timing of CFO Insights The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion.

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.

Action plan

We have identified four 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 2020/21 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	**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	A review of journal processes and controls should be carried out to ensure there are appropriate authorisation controls in place to reduce the 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
● High	**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.	We recommend management consider reviewing the elevated access assignment and, where possible, restricting Oracle administrator access to members of the IT department with all conflicting finance responsibilities being removed from System administrator accounts. **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 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.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan

We have identified four 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 2020/21 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	**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 should consider reviewing all users with system configuration capabilities assigned and where possible removing this from end users / limited access to members of IT department.. **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. We will begin an exercise of removing the identified functionality from accounts which should not have access. Members of IT and Senior System users may need access to some of these functions to be able undertake their job roles. The HR user HASLAMN no longer requires access to this functionality so will be end dated. A review of all users responsibilities is planned to align them to users needs.
Medium	**Completeness of the Fixed Asset Register** Our existence testing of the Council's fixed assets resulted in a number of assets no longer existing. The impact of this is an overstatement of the Council's assets and corresponding reserves.	Management should carry out a review of the Council's Fixed Asset Register to ensure that it is up to date and accurately includes the Council's fixed assets. **Management response** Management have put in place for 20/21 a process to review and identify assets no longer in existence.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Wirral Council’s 2018/19 financial statements, which resulted in 2 recommendations being reported in our 2018/19 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
✓	The Council’s draft financial statements published on its website at the end of May 2019 did not disclose the name of the Chief Executive in Note 33 Officers’ Remuneration. The Accounts and Audit Regulations require that all senior officers who receive remuneration in excess of £150k should be named in the disclosure note. The disclosure was amended for the final approved financial statements.	Quality control over the Statement of Accounts formed part of the Council’s wider review of Closedown processes.
✓	As already identified, there is scope to improve the Council’s accounts closedown process. The Council should complete its review of the closedown arrangements and ensure that it has sufficient and appropriately qualified resources in place to deliver the draft financial statements that require minimal amendment and review.	The Council has made significant investments into the production of the Closedown process including procuring the CIPFA toolkit which facilitates the production of the Council’s financial statements from its trial balance.

Assessment

✓ Action completed

X Not yet addressed

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

No misstatements have been adjusted by management which impact on the key statements and reported net expenditure for the year ending 31 March 2020.

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Comprehensive Income and Expenditure Statement	The statement should not include internal recharges in line with the Code requirements	The income and expenditure within the CIES should be adjusted to remove the internal recharges **Management response** Agreed to amend	✓
Note 4 – Assumptions made about future and other major sources of material uncertainty	The note should reference to the impact of material uncertainty declared on the valuation of the Council's estimated share of the pension fund property assets as per the Pension Fund's Net Asset Statement	Disclosure should be added to assess the impact of the material uncertainty declared on the valuation of the Council's estimated share of the pension fund's property assets. **Management response** Agreed to amend	✓
Note 6 – Events after the balance sheet date and Narrative Report	Further disclosure should be added to make reference to the impact which Covid-19 has had on the Council since the balance sheet date and to reflect the current position of the Council's budget.	None-adjusting balance sheet event should be added to outline the effects Covid-19 has had on the finances of the Council. **Management response** Agree to amend	✓

Audit adjustments

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 10 – Other Operating Expenditure Note 11 – Financing and Investment Income and Expenditure	Disclosures have been amended to correctly report the disposal and transfer of schools to Academy status during the year.	Disclosure adjustment to correctly report the transactions. **Management response** Agreed to amend	✓
Note 18 Financial Instruments	The Public Sector Social Impact Fund and CCLA investments should be reclassified to Fair Value Through Profit and Loss	The pooled investment funds should be classified as Fair Value through Profit and Loss as they do not meet the definition of equity instruments. **Management response** Agreed to amend	✓
Note 38 – Grant Income	The Housing Benefit Subsidy claim income was understated. The note did not include the accrued income of £12.9m The values of two grants required correcting - Improved Better Care Fund from £2.602m to £2.546m and Wirral Ways to Work from £1.736m to £1.423m.	Disclosure adjustment to correctly report the grant income **Management response** Agreed to amend	✓

Audit adjustments

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 40 Capital Expenditure and Financing Note 26 Useable Reserves	The draft accounts incorrectly analysed £1.2m between grants and REFCUS.	Disclosure adjustment to correctly report the transactions. **Management response** Agreed to amend	✓
Note 35 Officers' Remuneration	The table incorrectly disclosed £,000 in the heading instead of £.	The note should correctly disclose the values. **Management response** Agreed to amend	✓
Note 36 External Audit Fees	The disclosures did not correctly state the non-audit services provided to the Council by the auditor and the prior year fees have been restated to reflect the correct fee for this service.	The note should correctly disclose the fees for audit and non- audit services for the year and comparative year. **Management response** Agreed to amend	• ✓

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Risk Management Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Note 14 Property Plant and Equipment Assets have been identified as no longer in existence. A correct will be made in the 2020/21 accounts.	£0	(£895)	£0	• immaterial
Overall impact	**£0**	**(£895)**	**£0**	

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	£146,445	175,734
Total audit fees (excluding VAT)	**£146,445**	**£175,734**

The audit fees note within the financials statements will not include the £29,289 additional fees as it was not agreed with the Council until December 2020. This figure is included within the £175,734 above.

The impact of COVID 19 on the audit of your financial statements includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has driven additional areas of audit work (see below).
- Management's assumptions and estimates - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions.
- Financial resilience assessment – we are required to consider the financial resilience of audited bodies. COVID 19 has impacted on the financial resilience of all local government bodies. Due to the Council's financial position we have undertaken significantly more work than planned with regard to the value for money conclusion and going concern. In your report we make reference to the long term financial resilience of the Council and have issued an adverse conclusion. We have not had to include an emphasis of matter or use our statutory powers
- Remote working – the most significant impact in terms of delivery is the move to remote working (both our teams and yours). The Council has worked effectively with us. Despite our efforts and the Council's we have needed to put additional resources into the audit. Where possible we have mitigated this with reduced travel and expense costs
- Other issues – we have encountered a number of issues specific to the Council including internal recharges, accounting for pooled investments, and coding of debits and credits. This has increased the audit time we have input into the Council.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services - Certifications of Housing Benefit Subsidy Claim and Teachers' Pensions Return *	22,300	22,300
Non- Audit Related Services – CFO Insights	£12,500	£12,500
Total non- audit fees (excluding VAT)	**£34,800**	**£34,800**

* The work on the certifications of Housing Benefit subsidy claim and Teachers' Pensions Return is currently still ongoing

Audit opinion

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

Provided separately

Management letter of representation

Grant Thornton UK LLP

Birmingham

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

Dear Sirs

Wirral Metropolitan Borough Council
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Wirral Metropolitan Borough Council for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the 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 2019/20 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 2019/20 ("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 and we acknowledge the material uncertainty the valuer has noted in the Council's valuation report. This is on the basis of uncertainties in markets caused by Covis-19 and we are satisfied that there have no impairment of asset values as assessed by the valuer. 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.

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.

xi. 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.

xii. 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.

xiii. 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.

Management letter of representation

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

xv. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. 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.

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

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

xviii. The prior period adjustments disclosed in Note [X] to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xix. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. 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 current and future sources of funding or support will be more than adequate for the Council's needs. 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

xx. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the 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 .

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

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

xxiii. 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.

xxiv. 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.

xxv. 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.

xxvi. 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.

xxvii. 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.

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

Management letter of representation

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 financial statements.

Approval

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

Yours faithfully

Name…………………………

Position………………………..

Date…………………………..

Name…………………………

Position………………………..

Date…………………………..

Signed on behalf of the Council