Wirral Council audit plan

Year ending 31 March 2023

27 June 2023

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key matters

National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs, for example for social care costs, and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; providing support to, and preventing, the most vulnerable from falling into poverty and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

Grant Thornton has produced a report ‘About Time’ that explores the reasons for delayed publication of audited local authority accounts. Local authority accounts are becoming increasingly complex as accounting standards evolve and local authorities enter more and more innovative financing arrangements and income generation projects. A significant challenge in managing local audits is the differing needs of various stakeholders. This report concluded that amongst other things, the local government sector, central government and regulators need to agree on the purpose of local audit and find a consensus on improving efficiency in publishing accounts. We would be happy to circulate this report with Audit and Risk Management Committee members separately for information purposes.

Key matters

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit and Risk Management Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit and Risk Management Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation , discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified significant risks in regard to management override of control and revenue and expenditure recognition – refer to pages 7-9.
- We identified significant audit risks relating to valuation of land and buildings and investment properties, and valuation assumptions for net pension liability – refer to pages 10 -11.
- We identified other risks relating to the income guarantees for the commercial activities and the requirement to prepare group accounts – refer to page 12.
- Regarding your arrangements to secure value for money, we have also identified the following potential risk of significant weakness:

  - Financial sustainability - the ability to meet the Medium - Term Financial strategy and achieve the planned level of savings
  - Governance – the governance arrangements for the Council companies
  - Economy, efficiency and effectiveness – the decision to bring the social care services back in house

Introduction and headlines

Purpose

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

Respective responsibilities

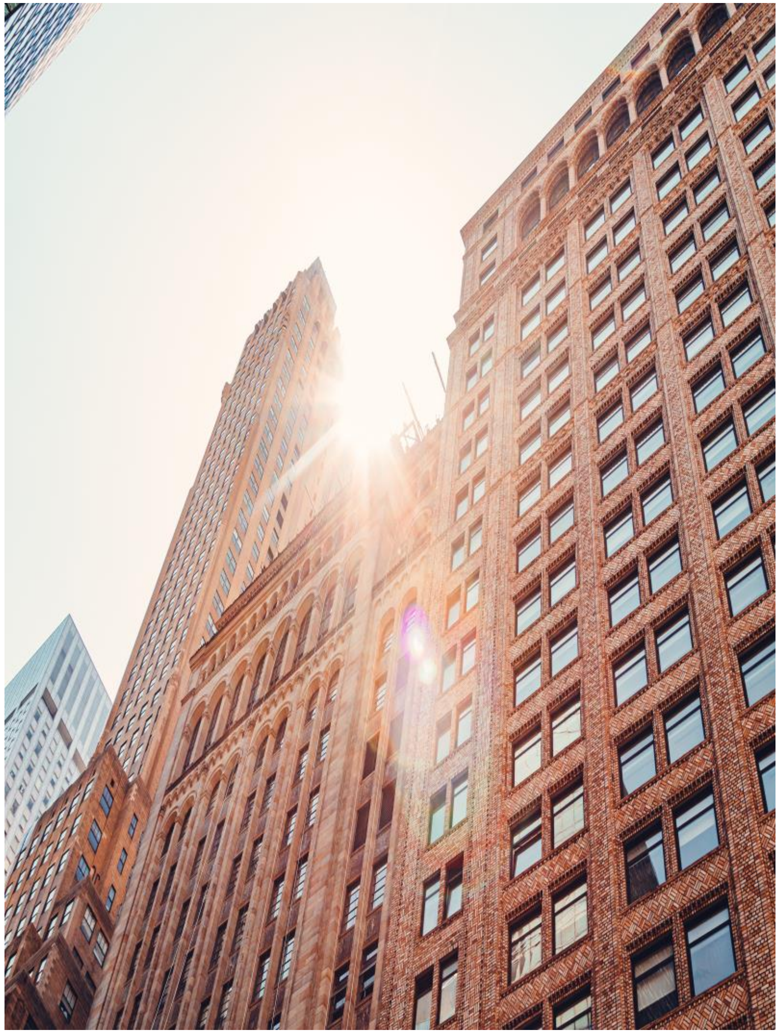
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Risk Management committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

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

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



Introduction and headlines

Significant risks

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

- Management override of controls
- ISA 240 improper revenue recognition risk
- ISA 240 improper expenditure recognition risk
- Valuation of land and buildings
- Valuation of investment properties
- Valuation assumptions for net pension liability

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

Materiality

We have determined planning materiality to be £10.3m (PY £9.9m) for the Council, which equates to 1.25% of your prior year gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

Clearly trivial has been set at £0.5m (PY £0.5m).

Value for Money arrangements

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

- Financial sustainability – the delivery of the Medium - Term Financial Strategy, including achievement of planned savings and transformational change.
- Governance – understanding of the group governance arrangements
- Economy, efficiency and effectiveness - provision of social care services and the decision to bring back in-house.

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our planning visit took place in March and our final visit will take place from July onwards. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £219,854 (PY: £229,533) the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 revenue improper recognition risk	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition may not be rebutted completely, because we have identified that certain revenue streams such as fees, charges and other service income could be overstated in order to achieve the year end balanced position, given the ongoing financial pressures the Council faces. For the remaining material revenue streams, we have acknowledged the following: • there is little incentive to manipulate revenue recognition for • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Wirral Council, mean that all forms of fraud are seen as unacceptable. We have therefore rebutted the risk of improper recognition of revenue from Council tax payers, business rates payers and government grants.	We will: • evaluate the Council's policy for the recognition of revenue for all material revenue streams • gain an understanding of the processes and controls put in place by management to ensure that the revenue has been appropriately recognised . • challenge key assumptions, the appropriateness of source data and the basis for calculations of revenue accruals • substantively test increased samples of revenue and year end receivables from fees, charges and other income supporting evidence. We will also design and carry out appropriate audit procedures to ascertain the recognition of revenue is in the correct accounting period using cut-off testing.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Risk of fraud related to expenditure recognition - Practice Note 10	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). Having considered the risk factors set out in ISA 240 and PN10 and the nature of the expenditure streams at the Council, we have determined that the risk of fraud arising from expenditure manipulation can mainly be rebutted as: • there is little incentive to manipulate expenditure recognition for • opportunities to manipulate expenditure recognition are very limited • the culture and ethical frameworks of local authorities, including Wirral Council, mean that all forms of fraud are seen as unacceptable. However, we have determined that the risk of fraud arising from expenditure recognition may not be rebutted completely, because there may be a risk of non-pay expenditure being understated and the treatment of REFCUS not being fully evaluated to achieve a balanced year end position given the ongoing financial pressures the Council faces.	We will: • evaluate the Council's policy for the recognition of non-pay expenditure, including REFCUS. • gain an understanding of the processes and controls put in place by management to ensure that the Council's non-pay expenditure has been appropriately recognised and matched to appropriate expenditure incurred. • challenge key assumptions, the appropriateness of source data and the basis for calculations of expenditure accruals. • substantively test increased samples of year end payables and non - pay expenditure balances. We will also design and carry out appropriate audit procedures to ascertain the recognition of expenditure is in the correct accounting period using cut-off testing.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management override of controls	Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the normal course of business as a significant risk for the Council, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings and Investment Property	The Council revalues its land and buildings on a rolling five-yearly basis. Investment properties are revalued annually to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date. This valuation represents a significant estimate by management in the financial statements. The valuation of land and buildings is a key accounting estimate which is derived, depending on the valuation methodology, from assumptions that reflect market observations and the condition of the asset at the time. However, the valuation methodology for Local Government land and buildings is specified in detail in the CIPFA Code and the sector is highly regulated by RICS, therefore we will focus our audit attention on assets that have large and unusual changes and / or approaches to the valuation of land and buildings, as a significant risk requiring special audit consideration. The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued. We will report an updated risk assessment for valuation of land and buildings in our Audit Findings Report.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write out to them and discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engage our own valuer to assess the instructions to the Council's valuer, the Council's valuation report and the assumptions that underpin the valuation • evaluate the valuer's report to identify assets that have large and unusual changes and/or approaches to the valuation – these assets will be substantively tested to ensure the valuations re reasonable • test a selection of other asset revaluations made during the year to ensure they had been input accurately into the Council's asset register, revaluation reserve and Statement of Comprehensive Income and Expenditure • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end • for all assets not formally revalued, evaluate the judgement made by management or others in the determination of current value of these assets.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation assumptions of the Pension Fund Net Liability	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We have pinpointed this risk specifically for where the valuation movements on individual assets are not in line with expectations. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Merseyside Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. • following the recent publication of the triennial valuation of Merseyside Pension Fund as at 31 March 2022, we will consider the impact of this on the pension fund net liability.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Other risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Income guarantees in relation to commercial activities	The Council is entering into a number of commercial activities where it is issuing guarantees or entering into complex transactions. These activities have significant potential liabilities for the Council. The Council has sought external consultancy on the accounting given this is a complex and specialised area. For some of the commercial schemes, these guarantees are now active as the contracts have been signed which is why we consider this to be an audit risk area.	We will: • update our understanding of the commercial activities currently being undertaken and the impact of these activities on the Council's financial position • review management's assessment of the income guarantees. • assess the proposed accounting treatment for the income guarantees and related complex transactions to ensure it meets the Code and relevant accounting standards' requirements.
The requirement to prepare group accounts	Transactions between the Council and its entities within the group boundary are forecast to be material for 2022/23. The Council's consideration of what does and does not fall within the group boundary becomes a significant judgement as the impact of the judgement determines whether group accounts are required in line with accounting standards.	In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. We will review the group boundary consideration and gain an understanding of the performance of the entities within the group boundary to determine whether the group accounts are required.

'In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.' (ISA (UK) 315)

Other matters

Other work

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

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

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

Progress against prior year audit recommendations

We identified the following issues in our 2021/22 audit of the Council's financial statements, which resulted in 5 recommendations being reported in our 2021/22 Audit Findings Report. We have followed up on the implementation of our recommendations and progress continues to be ongoing.

Issue and risk previously communicated	Update on actions taken to address the issue	Auditor response
Debtors and Creditors Balances There are a number of historical balances included within both the debtors and creditors year end balances on the balance sheet. The risk is that the Council is overstating its assets and or liabilities where there is a low expectation of receiving the income due to the Council or the liability is no longer valid. This issue was raised in the previous year's Audit Findings Report.	Work is continuing to review the debtors and creditors balances to ensure the balance sheet is correctly reported. As balances are reviewed any transactions where they need to be considered for write-off will be undertaken following the agreed finance procedure rules.	The high volume of historical balances leads to a more challenging audit process to ensure we gain sufficient assurance over the balances disclosed. We will continue to consider this matter during the 2022/23 audit.
Ledger Balances The Council's financial system contains transaction data and relating information that is no longer considered appropriate. The Council should review the balances held on its balance sheet codes within the general ledger to ensure that they are carrying forward the correct balances. This will be especially important giving the fact that the Council is moving to a new finance system from 1 April 2023.	This work is done is conjunction with the review of debtor and creditor balances, this work is on-going and continues post implementation to the new Oracle Fusion ERP system.	As above, the inclusion of data which is no longer considered relevant creates complex data cleansing procedures in order to determine the appropriate level of transaction detail for the balances held on the balance sheet. We will continue to consider this matter during the 2022/23 audit

Progress against prior year audit recommendations

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

Progress against prior year audit recommendations

Issue and risk previously communicated	Update on actions taken to address the issue	Auditor response
Commercial guarantees The Council is entering into a number of commercial activities where it is issuing guarantees or entering into complex transactions such as PUT/Call options. These activities have significant potential liabilities for the Council. We also note that investments of this kind may also require minimum revenue provision payments. When we requested information on the liabilities and accounting implications of these transactions, we identified that the Council did not readily have this information available or in the case of the accounting treatments had not prepared papers. We have requested accounting papers from the Council and disclosure of these matters in the financial statements.	The Council has sought external expertise from Arlingclose regarding the accounting treatment for the commercial guarantees who provided the Council with a draft external report which we are in the process of reviewing and assessing.	We will continue to consider this matter during the 2022/23 audit.
Reconciliation of the Fixed Asset Register to the General Ledger Differences have been identified between the fixed asset register and the general ledger due to way in which the fixed asset register recognises valuation movements, in particular for downward valuations which it records as impairments.	The third party software can only treat downward revaluations in one way and therefore a manual adjustment is required to reflect the correct accounting in the General Ledger. The move to new Oracle Fusion once implemented should resolve this issue.	We will continue to consider this matter during the 2022/23 audit.

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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £10.3m, which equates to 1.25% of your prior year gross expenditure for the period.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We will consider the banding disclosures and look to request amendments of any errors identified.

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.

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Audit and Risk Management Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit and Risk Management Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.5m (PY £0.5m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Risk Management Committee to assist it in fulfilling its governance responsibilities.

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.

	Amount (£)	Qualitative factors considered
Materiality for the Council's financial statements	10.3m	This equates to 1.25% of prior year gross operating costs. In setting materiality, we consider: • The ownership structure of the Council • The control environment of the Council • The Council's business environment • Whether the Council has any complex debt arrangements • Any other sensitivities that would require materiality to be reduced

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 21.

We plan to rely on the operation of application controls whether automated / IT dependent and will therefore carry out an extended ITGC assessment on the IT systems that support the operation of those controls. This is to gain assurance that the relevant controls have been operating effectively throughout the period.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Oracle E-Business Suite	Financial reporting	• Roll forward procedures linked to prior year detailed ITGC assessment (design effectiveness)

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office -issued its latest Value for Money guidance -to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Risks of significant VFM weaknesses

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

Risks of significant weakness

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

Financial sustainability

The Council is continuing to face financial challenges and is in a difficult financial position financially and was only able to manage its previous two years' financial positions through the capitalisation of revenue expenditure. For those two years the Council was reliant on exceptional financial support in the form of a capitalisation directive to achieve a year end balanced budget.

There is a challenging savings target for 2023/24 based on current assumptions, which historically the Council has been unable to deliver. Given the low level of general fund reserves, there is limited scope for non-delivery of savings in the future and reliance on the general fund reserves to mitigate any non-delivery of savings plans.

The Council has an ambitious capital programme which will result in increased revenue pressure in future years via the Minimum Revenue Provision (MRP) and interest payments. The Council is currently benefiting from a reduction in its MRP payments which will unwind in future years.

Governance

There are a number of entities which operate within the Council's group boundary, which has undergone a number of changes over the two years. It is essential in a period of change that there are clear and effective governance arrangements in place with oversight for the Council and entities for which it has control over.

Improving economy, efficiency and effectiveness

The Council has made the decision to bring the provision of social care services back in house, which had led to additional associated costs. There is a risk that the arrangements will not lead to improving economy, efficiency and effectiveness of the use of Council resources.

Risks of significant VFM weaknesses

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

Audit logistics and team

Sarah Ironmonger, Key Audit Partner

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

Naomi Povey, Audit Manager

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

Kelly Jarvis, Audit In-Charge

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

Audited Entity responsibilities

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

Our requirements

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

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

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for Wirral Council to begin with effect from 2018/19. The fee agreed in the contract was £123,095. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £5,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf and has been agreed with the Director of Finance.

Audit fees

	Actual Fee 2020/21	Actual (or estimated) Fee 2021/22	Proposed fee 2022/23
Wirral Council Audit	£218,445	£229,533	£219,854
Total audit fees (excluding VAT)	**£218,445**	**£229,533**	**£219,854**

Assumptions

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

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

Relevant professional standards

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

Independence and non-audit services

Auditor independence

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

We confirm that 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.**

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 we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified/ No other services provided by Grant Thornton were identified]

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

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefits Claim	28,400 (PY)	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 £28,400 in comparison to the total fee for the audit of £219,854 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers' Pensions Return	7,500 (PY)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit of £219,854 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.

Independence and non-audit services

Service	Fees £	Threats	Safeguards
Non-audit related			
CFO insight	12,500	Self-Interest (because this is a recurring fee)	This is an online software subscription service that enables users to rapidly analyse data sets. CFO Insight is a Grant Thornton and CIPFA collaboration giving instant access to financial performance, service outcomes and social economic indicators for local authorities. It is the responsibility of management to interpret the information. The scope of our services does not include making decisions on behalf of management or recommending or suggesting a particular course of action, These factors mitigate the perceived self-interest threat. The fee for the work is negligible in comparison to the total fee for the audit.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group’s accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Grant Thornton