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Chief Operating Officer  
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Friday 24 July 2020

**TO: COUNCILLORS N FUREY, P O'NEILL, T BLANE, I DAVIS, C DERELI, G DOWLING, J GORDON, J MEE, E POPE, A PRITCHARD, N PRYCE-ROBERTS**

Dear Councillor,

Please find attached reports marked "to follow" on your agenda for the meeting of the **AUDIT AND GOVERNANCE COMMITTEE** on **TUESDAY, 28 JULY 2020**.

**SUPPLEMENTARY AGENDA  
(Open to the Public)**

- |   |           |
|---|-----------|
| <b>7. INTERNAL AUDIT ANNUAL REPORT</b>  | 95 - 106  |
| To consider the report of the Head of Finance, Procurement and Commercial Services. |           |
| <b>8. ANNUAL GOVERNANCE STATEMENT</b>   | 107 - 114 |
| To consider the report of the Head of Finance, Procurement and Commercial Services. |           |
| <b>9. GRANT THORNTON PROGRESS UPDATE</b>  | 115 - 138 |
| To consider the report of the Head of Finance, Procurement and Commercial Services. |           |

Yours faithfully

A handwritten signature in black ink, appearing to be 'JS', enclosed in a rectangular box.

Jacqui Sinnott-Lacey  
Chief Operating Officer

**We can provide this document, upon request, on audiotape, in large print, in Braille and in other languages.**

**MOBILE PHONES: These should be switched off or to 'silent' at all meetings.**

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# **INTERNAL AUDIT SERVICE ANNUAL REPORT 2019-2020**

**Jacqui Pendleton  
Internal Audit Manager  
West Lancashire Borough Council  
July 2020**

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## 1. Executive Summary

- 1.1 The Internal Audit Manager is obliged, under the Public Sector Internal Audit Standards (PSIAS), to provide an annual report summarising the work undertaken by internal audit during the financial year just closed, and to provide an overall opinion on West Lancashire Borough Council's internal control environment.
- 1.2 In respect of 2019/20, 21 assurance audits were completed, 15 of which recorded an audit opinion and a further 6 with no opinion which have been taken into account. The overall audit opinions given in the assurance audit reports can be summarised as:

Assurance Opinion	Assessment of Internal Control	Number
Substantial Assurance	<p>Level of Assurance = High</p> <p>The controls evaluated are well designed, appropriate in scope and applied consistently and effectively. Any issues identified are minor in nature and should not prevent objectives being achieved.</p> <p>There is a low risk of fraud, negligence, loss or damage to reputation.</p>	<b>5</b>
Moderate Assurance	<p>Level of Assurance = Medium</p> <p>The controls evaluated are generally well designed, appropriate in scope and applied in the main consistently and effectively, but some weaknesses have been identified that require management attention. These issues increase the risk that some objectives may not be fully achieved.</p> <p>There is a medium/low risk of fraud, negligence, loss or damage to reputation.</p>	<b>7</b>
Limited Assurance	<p>Level of Assurance = Low</p> <p>Some controls evaluated are generally well designed, appropriate in scope and applied consistently and effectively. However, issues of poor design, gaps in coverage or inconsistent or ineffective implementation have been identified that require immediate management attention. The issues if unresolved, mean that objectives may not be achieved.</p>	<b>1</b>

	There is a medium risk of fraud, negligence, loss or damage to reputation.	
No Assurance	<p>Level of Assurance = None</p> <p>Expected controls are absent, or where evaluated are flawed in design, scope or application leaving the system open to error or abuse. The auditor is unable to form a view as to whether objectives will be achieved.</p> <p>There is a high risk of fraud, negligence, loss or damage to reputation.</p>	<b>2</b>

- 1.3 Based upon the work undertaken by Internal Audit in respect of 2019/20, and the implications of the Covid-19 epidemic on the Councils internal control framework, the opinion of the Internal Audit Manager on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control is **moderate assurance**.

## **2. Introduction**

- 2.1 In accordance with the Accounts and Audit Regulations 2015, the Council must ensure that it provides adequate and effective internal audit arrangements in respect of its accounting records and systems of internal control, and that it conducts an annual review of the effectiveness of these. In addition, these arrangements must be delivered in accordance with the Public Sector Internal Audit Standards (PSIAS), revised in January 2017, and Local Government Application Notes (LGAN), which came into effect on 1 April 2013 and 1 February 2019.
- 2.2 The work carried out by the Internal Audit Service involves reviewing and reporting on the control environment established by management to:
- Determine and monitor the achievement of the Council's objectives
  - Identify, assess and appropriately manage the risks to achieving the Council's objectives
  - Facilitate policy and decision making
  - Ensure economical, effective and efficient use of resources
  - Ensure compliance with established policies, procedures, laws and regulations
  - Safeguard the Authority's assets and special interests.
- 2.3 It is a requirement of the PSIAS that "the Head of Internal Audit provides an annual report to those charged with governance, which should include an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control".
- 2.4 The work streams set out in the Internal Audit Plan 2019/20, approved by this committee on 28<sup>th</sup> May 2019 are a primary source of assurance upon which the Internal Audit Manager's opinion is based.
- 2.5 In arriving at this opinion, this report sets out:
- A summary of the Internal Audit work undertaken during 2019/20;
  - A summary of the developments within Internal Audit during the year;
  - The Internal Audit Managers opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control in 2019/20.

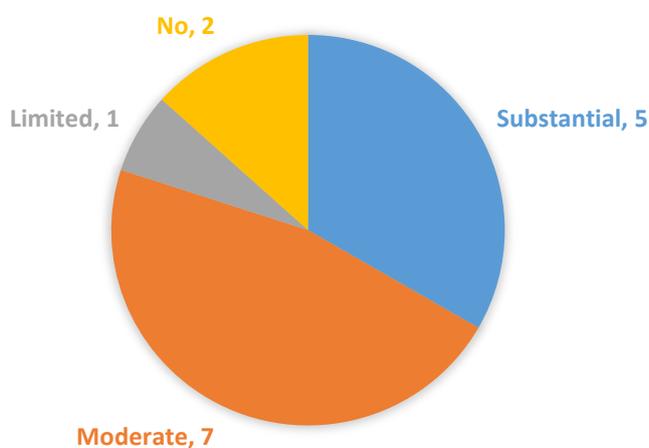
### **3. Internal Audit Activity 2019/20**

- 3.1 At the beginning of the audit year (1 June 2019) the Internal Audit Service had a full complement of 3.8 FTE staff. However, a proportion of this resource is used to undertake non-audit work for Payroll, Parish Council Grants and Precepts, and the Maintenance of the Council's authorisation list, therefore leaving staffing resources of 3.5 FTE. Whilst this appears to be a small difference it does equate to a loss of approximately 65 audit days per year and is accounted for in the annual audit planning process.
- 3.2 The internal audit staffing resource was further impacted as a result of the Covid-19 pandemic which saw the council's emergency plan and response invoked. The invocation of the emergency plan resulted in planned audit work being paused and Internal Audit staff were redeployed into critical services areas to assist as required. Audit staff undertook duties in Human Resources, Covid 19 Business Grants Team and Home Care Link. The Internal Audit Manager initially managed the redeployment of staff across the council to meet demand and then transferred to Lead the Critical Community Support Group.
- 3.3 During the initial period of the Covid-19 pandemic the council had to change many working practices to facilitate home working and social distancing measures. Internal Audit provided ad-hoc advice to management on some of the key changes to processes and procedures giving due regard to the impact these changes may have on the councils internal control framework. The team continue to provide support and advice when needed and remain mindful of the impact the pandemic has had on service areas and the need to do things differently.
- 3.4 The 2019/20 Internal Audit Plan was compiled by the Internal Audit Manager using a risk based approach, consulting with members of the Corporate Management Team and taking into account the Council's objectives considering known local and national influences on risks to their achievement. It was approved by this committee on 28<sup>th</sup> May 2019.
- 3.5 The 2019/20 Internal Audit Plan initially set out 32 work streams but reduced to 30 following changes to the organisation as part of SORP. All amendments to the 2019/20 Internal Audit Plan were referred to this committee for approval.
- 3.6 From the 30 audit reviews planned 25 have been completed, 21 to a final report issued or no final report required stage, a further three are in the draft report issued stage, and one is partially completed. Five audit reviews were not completed due to the impact of Covid 19 as outlined above and these will be carried forward into future audit years.

### Final Report issued with opinion

<b>Title</b>	<b>Opinion</b>
Property Services – Electric	Limited
GDPR	No
Stripe Payment Method	Moderate
Civic Bulky Collections	No
Enforcement Charges	Substantial
Land Charges	Moderate
Corporate Credit Card	Moderate
Benefits	Substantial
Debtors	Moderate
Council Tax	Moderate
Council Tax Support Scheme	Substantial
NDR	Moderate
Housing Rents Standard	Substantial
Housing Rents – Rents Sense	Substantial
Main Accounting	Moderate

### AUDIT ASSURANCE SUMMARY



Draft Report Issued – provisional opinion subject to change

Title	Opinion (Provisional)
Vehicle Maintenance Contract	Limited
Creditors	Moderate
Works After Sale of Council Houses	Limited
Development Company	Audit in progress

Audits deferred

Title	Opinion (Provisional)
Payroll	Suspended until 2020/21
Performance Indicators	Suspended
Treasury Management	Suspended until 2020/21
Service Now - Customer Relationship Management	Suspended
Asbestos	Suspended until 2020/21

- 3.5 Follow up reviews were introduced during 2019/20 and resulted in three reviews being undertaken before audit work was paused. Two out of the three reviews undertaken resulted in the assurance opinion increasing. A further follow up is scheduled for September 2020 in respect of the Gas audit review.

Title	Original Opinion	Updated Opinion
Gas	Limited	Limited
Caretakers	Limited	Moderate
Home Care Link	Limited	Moderate

- 3.6 Performance against the plan, summaries of internal audit activity and the level of assurance it provides are reported to this committee on a quarterly basis. The impact of the Covid-19 pandemic and the redeployment of staff saw performance indicators suspended from Quarter 4 onwards. Despite the

impact of Covid-19 on the service and the pausing of audit work, the team had already made good progress which saw 83% of the audit plan completed and ensured that sufficient audit coverage had been achieved during 2019/20 to enable me to provide an opinion on the control environment. Additionally, feedback from auditees was also positive and resulted in 100% of ratings given being very good, good or average.

- 3.7 Non-assurance work is activity undertaken by internal audit not primarily designed to provide assurance. An example is the National Fraud Initiative which the Council is required to participate in. Such work may still provide useful evidence of the effectiveness of controls in operation and work completed in these areas during the year did not disclose any evidence of significant areas of weakness in controls.
- 3.8 In addition to planned activity, internal audit have a role in investigation of potential fraud and irregularity, responding to items referred to it in accordance with established procedures. No referrals during the year disclosed evidence of significant areas of weakness in controls.

#### 4 Internal Audit Developments

- 4.1 The Internal Audit Team have continued to review and develop new working practices, this will carry on throughout 2020/21 as the team meets the challenges of remote auditing and the increase in working from home.
- 4.2 All Internal Audit reviews are subject to a follow up review no later than 6 months following the issue of the final Internal Audit Report. This has been a successful introduction and this will continue into 2020/21.
- 4.3 This year's Internal Audit Managers opinion is defined using the following audit opinion scale and definitions. This will give members greater clarity on where the organisation is in terms of governance, risk management and internal control.

<b>Opinion</b>	<b>Definition</b>
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the

	achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and/or control to effectively manage risks to the achievement of objectives in the areas audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and/or control is inadequate to effectively manage risks to the achievement of objectives in the areas audited.

- 4.4 From 17<sup>th</sup> August 2020 a report on outstanding audit recommendations is to be presented to the Council's Corporate Management Team (CMT) on a monthly basis. This will enable CMT to have visibility of recommendations being made and also monitor non implementation so that timely action can be taken.
- 4.5 The annual review of the Internal Audit Service continued compliance with the Public Sector Internal Audit Standards is in progress and will result in a refreshed Quality Assurance and Improvement Programme that will be reported to this committee during 2020/21.
- 4.6 The Internal Audit Service will be undertaking planned work during 2020/21 that will assess the impact of the Covid-19 pandemic has had on the internal control framework, in particular on the key financial systems. Due regard will also be given to the new work streams, such as Business Grants, payment holidays and the humanitarian hub brought about by the Governments response to Covid-19 and the need for Local Authorities to provide assistance to residents and businesses.

## 5 Annual Governance Statement

- 5.1 Internal Audit work supports the production of the Annual Governance Statement. The main significant governance issues arising from internal audits work includes:
- the impact of Covid-19 on the council and the remaining threats;
  - Compliance with GDPR and the no assurance opinion provided;

- Challenging financial situation due to the reduction of government funding and the impact of Covid-19.

## **6 Internal Audit Manager's Overall Opinion**

- 6.1 Based upon the work undertaken by Internal Audit in respect of 2019/20, and the implications of the Covid-19 epidemic on the Councils internal control framework, the opinion of the Internal Audit Manager is that ***moderate assurance*** can be given on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and internal control.
- 6.2 Of the systems and procedures reviewed, 1 audit review was found to provide limited assurance and 2 audit reviews were found to provide no assurance. Action plans detailing findings and recommendation have been agreed with management and Internal Audit will work closely with managers to ensure that recommendations are implemented. Follow up audit work will be carried out to ensure that adequate progress to implement audit recommendations has been made, and updates on progress will be made to the Audit and Governance Committee.
- 6.3 No system of control can give absolute assurance against material misstatement or loss and, accordingly, this opinion does not provide such an absolute assurance.





**AUDIT & GOVERNANCE COMMITTEE: 28 July 2020**

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**Report of: Head of Finance, Procurement and Commercial Property**

**Contact for further information: Marc Taylor (Extn. 5092)**  
**(E-mail: marc.taylor@westlancs.gov.uk)**

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**SUBJECT: ANNUAL GOVERNANCE STATEMENT**

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Borough wide interest

## **1.0 PURPOSE OF THE REPORT**

1.1 To consider the Council's Annual Governance Statement.

## **2.0 RECOMMENDATION**

2.1 That the Annual Governance Statement 2019/2020, set out in Appendix 1, be approved and commended to the Leader and Chief Operating Officer for signature.

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## **3.0 BACKGROUND**

3.1 The Accounts and Audit Regulations require the Council to publish an Annual Governance Statement with its financial reports.

3.2 The terms of reference of this Committee include responsibility for approving the Annual Governance Statement and commending it for signature by the Leader and Chief Operating Officer.

## **4.0 CURRENT POSITION**

4.1 The Annual Governance Statement provides a summary of the Council's internal control environment and a review of its effectiveness. This year's Statement confirms that the framework is adequate and that it is working effectively. This continues the Council's track record of demonstrating solid financial and governance arrangements.

- 4.2 There is an ongoing governance issue related to the financial challenges facing local authorities primarily as a result of reductions in government grant funding. This risk is included on the Council's Key Risk Register and the primary mechanism for addressing it will be the Sustainable Organisation Review Project.
- 4.3 The coronavirus has had a significant impact on the Council's activities and a summary of the projected financial impact was reported to the Council meeting on 22<sup>nd</sup> July. This issue is also included on the Council's Key Risk Register and it will be proactively managed going forward through regular meetings of the Corporate Management Team.
- 4.4 The Authority has consistently received positive feedback from its external auditors on its arrangements for internal control, and the most recent Annual Audit Letter has concluded the same. In the Annual Internal Audit Report, elsewhere on this agenda, the Council's Internal Audit Manager has summarised the findings from Internal Audit activity over the year and these findings are incorporated into the Annual Governance Statement.
- 4.5 All Heads of Service have considered and signed a Certificate on Internal Control to confirm that governance arrangements and internal controls have not been compromised during the past year in their areas of responsibility. As it is Managers who are charged with embedding governance systems in their areas, this is an integral part of the annual review process.

## **5.0 SUSTAINABILITY IMPLICATIONS**

- 5.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder.

## **6.0 FINANCIAL AND RESOURCE IMPLICATIONS**

- 6.1 All the activity referred to in this report is covered by existing budget provisions.

## **7.0 RISK ASSESSMENT**

- 7.1 Failure to publish an Annual Governance Statement with the Statement of Accounts would breach one of the Council's statutory obligations.

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### **Background Documents**

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

### **Equality Impact Assessment**

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

### **Appendices**

Appendix – West Lancashire Borough Council 2019/20 Annual Governance Statement

**WEST LANCASHIRE BOROUGH COUNCIL**

**2019/20 ANNUAL GOVERNANCE STATEMENT**

**SCOPE OF RESPONSIBILITY**

West Lancashire Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Council also has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

To discharge this overall responsibility, the Council must have in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which include arrangements for the management of risk.

West Lancashire Borough Council has approved and adopted a Local Code of Corporate Governance, and this statement explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit Regulations, in relation to the production of an Annual Governance Statement.

**THE PURPOSE OF THE GOVERNANCE FRAMEWORK**

The governance framework comprises the systems, processes, culture and values by which the Council is directed and controlled and the mechanisms through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at West Lancashire Borough Council for the year ended 31 March 2020 and up to the date of approval of the statement of accounts.

### THE GOVERNANCE FRAMEWORK

The Council has in place a comprehensive governance framework designed to regulate, monitor and control its various activities in its pursuit of its vision and objectives.

The key elements of the framework include:

The principal statutory obligations and functions of the Authority are identified in the Constitution and reflected in the Budget and Policy Framework which is approved by Council.

The Council reviews its vision and priorities regularly. A statement of the current vision, values and priorities is available in a number of formats and, together with a number of other documents referred to in this Annual Governance Statement, can be viewed online on the Council's [website](#). There is also a Council Plan in place that contains details of the key projects that are designed to drive forward progress against priorities.

The Council's Pentana Performance Management System is used to monitor achievement of the Council's objectives and progress against key projects. Information from this system is presented to Management and Members on a regular basis.

The Council has a number of corporate service standards which apply to all customers and staff. These care standards provide a clear commitment of our desire to provide a high quality of customer service, for example in terms of response times for letters and emails. They cover targets and the attitude and behaviour of staff and customers.

The Council has in place Codes of Conduct which set out the standards of behaviour expected of all members and officers. These are provided to all members and officers on appointment and are also available on the Council's website. The Council also has a Standards Committee whose role is to promote and maintain high standards of conduct.

The Council's Constitution clearly sets out the respective roles and responsibilities of the Council, its Executive and Overview and Scrutiny functions, and delegations to Committees, Portfolio holders and Chief Officers as well as those functions which, by statute, are to be exercised by a designated "Proper Officer". Committee meetings are open to the public, except where personal or confidential matters may be disclosed.

As part of the Constitution the Council has agreed a Protocol on Member/Officer Relations and Conventions for the Management of Council Business.

The Council's Monitoring Officer Protocol sets out how the Council deals with issues of concern including legality, probity and constitutional issues.

The Council's professionally qualified Chief Finance Officer (the Head of Finance, Procurement and Commercial Property) is responsible for the proper administration of its financial affairs. The Officer attends Council, Cabinet and Corporate Management Team meetings and has direct access to the Chief Operating Officer. Financial advice is provided for all the key decisions that are made.

A Medium Term Financial Forecast and Treasury Management Strategy, which assesses the potential financial risks to the Council, are in place and are reviewed regularly. Standing orders and financial regulations, that detail the Council's financial management arrangements, are also maintained and reviewed and updated periodically.

The Council has a comprehensive Risk Management process in place which is fully embedded throughout the organisation and forms an integral part of the management process. This includes a dedicated resource committed to this area of work to ensure consistency and compliance throughout the Council. In addition all reports to Council and Cabinet have a risk assessment section.

The Council's Audit and Governance Committee undertakes the core functions of an audit committee as identified in CIPFA's publication *Audit Committees – Practical Guidance for Local Authorities*. The Committee receives regular reports on governance issues from both officers and the Council's external auditors. The Council has an objective and professional relationship with its external auditors and statutory inspectors, together with other agencies such as the Local Government Association.

The Council is committed to the highest possible standards of openness, probity and accountability and has in place a formal Complaints Procedure, Anti-Money Laundering Policy, Whistleblowing Code and Anti-Fraud, Bribery and Corruption Policy. The Council has a zero tolerance policy towards fraud and corruption. The Council's Whistleblowing Code provides the opportunity for anyone to report their concerns confidentially and enable them to be investigated properly.

In accordance with best practice the Council has in place Senior Information Risk Owner arrangements. The arrangements ensure suitable allocation of responsibilities for information systems through a network led by the Borough Solicitor.

Recruitment Procedures are in place to ensure the appointment of appropriately skilled employees. An induction process is also in place for employees along with guidance for Managers on how to induct new employees into their teams. Ongoing training needs are identified through a Development Appraisal Scheme.

The Council is committed to consulting local people and a 'Your Views' section is available on the Council's website dedicated to engaging with the public.

The Council has in place a Protocol which sets out how the essential elements of local governance, accountability and transparency will be maintained within any proposed arrangements for service delivery through partnerships. The Council is committed to working in partnership with public, private and voluntary sector organisations where this will enhance its ability to achieve its identified aims.

### FINANCIAL MANAGEMENT ARRANGEMENTS

The Authority's Financial Management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

### REVIEW OF EFFECTIVENESS OF THE COUNCIL'S GOVERNANCE FRAMEWORK

West Lancashire Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of Heads of Service and Senior Managers within the Council who have responsibility for the development and maintenance of the governance environment, by the Head of Internal Audit's annual report, and also by the work undertaken by the External Auditors and other review agencies and inspectorates.

The Council is ultimately responsible for maintaining an up to date governance framework which is chiefly contained in its Constitution and is made up of its standing orders, financial regulations and scheme of delegation together with various associated policies and procedures.

Our most recent Annual Audit Letter from Grant Thornton concluded that the Council has effective arrangements in place for internal control.

As part of the procedure for producing this statement, the Council's Heads of Service are required to review whether there are any significant control or governance issues that require addressing. No significant issues have been identified in this year's review.

The Head of Finance, Procurement and Commercial Property, who has overall responsibility for the Council's financial framework, has not identified any significant governance or internal control issues in relation to financial matters. In carrying out a continuous audit of the Council's business, the Internal Audit Section review the effectiveness of key elements of the Council's governance arrangements and report to the Audit and Governance Committee accordingly. The Internal Audit Manager's Annual Report for 2019/20 does not identify any serious deficiencies in the Council's internal control mechanisms.

The Audit and Governance Committee are charged with monitoring Contract Procedure Rules, Financial Regulations and other provisions of the Constitution. This Committee also considers how well the Council has complied with its own and other published standards and controls in so far as these contribute to the adequacy of its framework of internal control.

We have been advised on the implications of the review of the effectiveness of the governance framework by the Audit and Governance Committee, and plans to address development issues and ensure continuous improvement of the system are in place.

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**PROGRESS ON ISSUES IDENTIFIED IN THE LAST ANNUAL GOVERNANCE STATEMENT**

**FUTURE FINANCIAL CHALLENGES**

Due to robust financial monitoring and management, the Council has achieved a favourable budget variance for 2019/20 and has set a balanced budget for 2020/21. Consequently, the Council is taking appropriate action to ensure a stable financial standing over the medium term and this position has been confirmed in our latest Annual Audit letter.

**CURRENT SIGNIFICANT GOVERNANCE ISSUES**

**FUTURE FINANCIAL CHALLENGES**

Further significant savings and additional income generation will be required to ensure a balanced budget position is achieved in 2021/22. This budget gap will primarily be addressed through the Council's Sustainable Organisation Review Project. Implementing this income and savings programme may create significant risks in the governance framework that will need to continue to be managed and reviewed effectively. The financial pressures created by the coronavirus will also continue to be monitored closely.

**IMPACT OF CORONAVIRUS**

There have been a wide range of actions and initiatives that have been undertaken to address the unprecedented issues and pressures created by the coronavirus, which features on the Council's Key Risk Register. The Corporate Management Team has met on a regular basis to manage this response and will continue to do so as required in future months as the situation develops.

**GENERAL DATA PROTECTION REGULATION (GDPR)**

A recent audit review has identified that, while a significant amount of work has been completed on implementing GDPR, that further development is required to ensure that procedures and processes are being applied consistently and are operating effectively. A plan of action has been prepared to address the issues raised by the review and updates on progress will be made to future Audit and Governance Committee meetings.

On the basis of the work carried out, which has been reviewed by the Audit and Governance Committee, we are satisfied that the Governance Framework is generally effective. We propose over the coming year to address the above matters to further enhance our governance arrangements and to prepare for change. We are satisfied that these actions will address the need for improvements that were identified in our review and will monitor their implementation and operation as part of our next annual review.

**SIGNED:**        Ian Moran  
                      Leader of the Council

**SIGNED:** Jacqui Sinnott-Lacey  
Chief Operating Officer

On behalf of West Lancashire Borough Council



## AUDIT AND GOVERNANCE COMMITTEE:

28 July 2020

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**Report of: Head of Finance, Procurement and Commercial Property**

**Contact for further information: Marc Taylor (Extn. 5092)**  
**(E-mail: [marc.taylor@westlancs.gov.uk](mailto:marc.taylor@westlancs.gov.uk))**

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**SUBJECT: GRANT THORNTON PROGRESS UPDATE**

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Wards affected: Borough wide

### **1.0 PURPOSE OF THE REPORT**

1.1 To receive updates from our External Auditors on a range of different matters.

### **2.0 RECOMMENDATION**

2.1 That the updates be considered and that any questions be raised with the Grant Thornton representatives who will be attending the meeting.

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### **3.0 BACKGROUND**

3.1 Our external auditors have asked for the documents contained in the appendices to be included on the agenda for this meeting so that Members may give them due consideration.

### **4.0 GRANT THORNTON REPORTS**

4.1 Representatives of Grant Thornton will introduce and explain the documents in the Appendices at the Committee meeting and will be able to answer any questions that Members may have on their contents.

## **5.0 SUSTAINABILITY IMPLICATIONS**

5.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder.

## **6.0 RISK ASSESSMENT**

6.1 The work that our External Auditors undertake is an integral part of the Council's control framework and provides assurance to Members that the Council is operating effectively.

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### **Background Documents**

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

### **Equality Impact Assessment**

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

### **Appendices**

Appendix 1 – External Audit Plan 2019-20

Appendix 2 – Audit scope and additional work 2019-20

# External Audit Plan

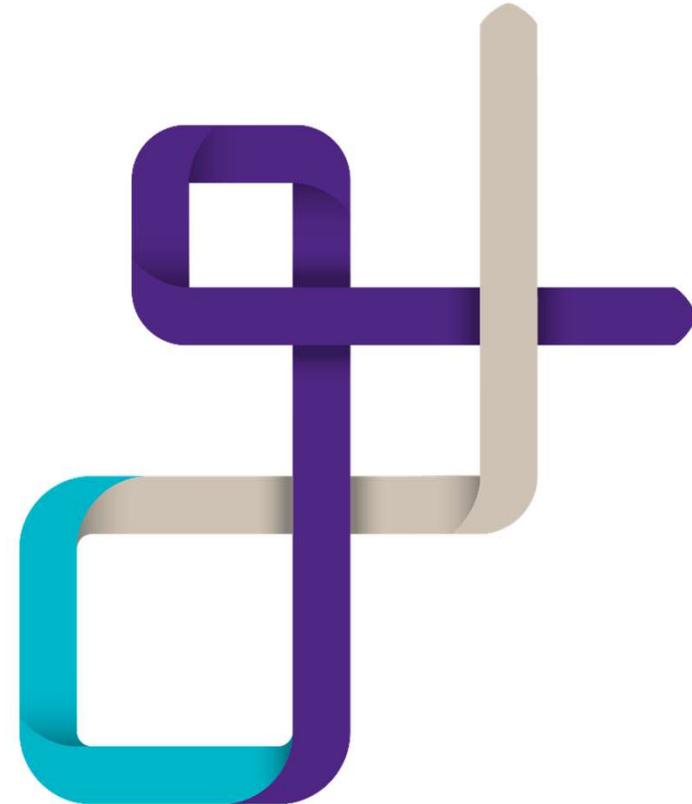
*Year ending 31 March 2020*

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West Lancashire Borough Council

May 2020

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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 Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# 1. Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of West Lancashire Borough Council ('the Authority') 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 Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of West Lancashire Borough Council. We draw your attention to both of these documents on the [PSAA website](#).*

## 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 :

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

The audit of the financial statements does not relieve management or the Audit & Governance Committee of your responsibilities. It is the responsibility of the Authority 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 Authority is fulfilling these responsibilities.

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

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## Significant risks

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

- Valuation of land and buildings
- Valuation of net pension fund liability
- Management override of controls
- Impact of the Covid-19 outbreak

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.

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## Materiality

We have determined planning materiality to be £1.302m (PY £1.483m) for the Authority, which equates to 1.8% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.065m (PY £0.074m).

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## Value for Money arrangements

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

- Financial Sustainability

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## Audit logistics

Our interim work took place in March and our final visit will take place between June and November. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £40,384 (PY: £38,184) for the Authority, subject to the Authority meeting our requirements set out on pages 12 and 13.

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## Independence

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..

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## 2. Key matters impacting our audit

### Factors

#### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents.

For West Lancashire Borough Council, the mid-year review of the General Revenue Account has identified that good progress is being made in delivering the budget position and that this target should be achieved at the year end.

For the Housing Revenue Account, the latest position shows that a favourable budget variance of £1,232k is expected, representing 4.8% of total turnover.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty.

The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

#### Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

In general, across our client base, our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

#### Commercial Projects

The 2019/20 financial year has seen the Council's housing development subsidiary, Tawd Valley Developments Ltd become fully operational. As well as this construction has begun on the first stage of the £19m project to develop Skelmersdale Town Centre with the Council's project partners. Both of these projects are intended to deliver visible improvements for the Borough and successful ventures for the Council.

#### Impact of Covid-19 Pandemic

The coronavirus global pandemic is impacting how people work. Whilst it is a constantly evolving picture, we are expecting the delivery of the audit to be impacted by staff at audited bodies and audit teams working remotely to avoid spreading the virus as well as possible sick days reducing staff capacity.

The government has announced that the deadline for local government financial audits will be extended to 30 November 2020 from 31 July 2020.

### Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Head of Finance, Procurement and Commercial Property and is subject to PSAA agreement.
- We will continue to monitor the progress of the Council's commercial projects and how it works with Partners as part of our ongoing VFM risk assessment.

- Since early March we have been liaising with members of your finance team to discuss how we can work together effectively to deliver the audit despite the restrictions on unnecessary physical interaction.
- Following the government's announcement on Monday 16 March, we also closed our offices for the foreseeable future and have asked our people to work from home rather than in the office.
- All of our staff are set up to work remotely and we use a variety of tools to communicate and share information such as Microsoft Teams and Inflo.

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## 3. Impact of Covid-19 on our Audit Approach

### The current environment

In addition to the audit risks we originally intended to communicate to those charged with governance within this Audit Plan, recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

### Impact on our audit and VfM work

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020, however we will liaise with management to agree appropriate timescales. We continue to be responsible for forming and expressing an opinion on the Council and group's financial statements and VfM arrangements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and to reflect current restrictions to working practices, such as the application of technology to allow remote working. Additionally, it has now been confirmed that the implementation of IFRS 16 has been delayed for the public sector until 2020/21.

### Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described on page 8.
- Reviewed the materiality levels we determined for the audit. We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19.

### Changes to our VfM approach

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 for 2019-20.

### Conclusion

We will ensure any further changes in our audit and VfM approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

## 4. 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
<p><b>The revenue cycle includes fraudulent transactions</b></p>	<p>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.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including at West Lancashire Borough Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for West Lancashire Borough Council.</p>
<p><b>Valuation of land and buildings</b></p>	<p>The Authority revalues its land and buildings on a five-yearly basis. In the intervening years, such as 2019/20, to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the Authority requests a desktop valuation from its internal valuation expert to ensure that there is no material difference. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£209million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• Write to and discuss with the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• test revaluations made during the year to see if they had been input correctly into the Authority's asset register</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Management over-ride of controls</b>	<p>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 Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>
<b>Valuation of the pension fund net liability</b>	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£56.5 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtain assurances from the auditor of Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>Impact of Covid-19 outbreak</b></p>	<p>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:</p> <ul style="list-style-type: none"> <li>- 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</li> <li>- 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</li> <li>- 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</li> <li>- 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.</li> </ul> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach</li> <li>• Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise</li> <li>• Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic.</li> <li>• Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely</li> <li>• Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances</li> <li>• Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment</li> <li>• Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.</li> </ul>

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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.

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# 5. 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 consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued 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 the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
  - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

## Other material balances and transactions

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

## Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence 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 Authority's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

# 6. Materiality

## The concept of 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.

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

## Materiality for planning purposes

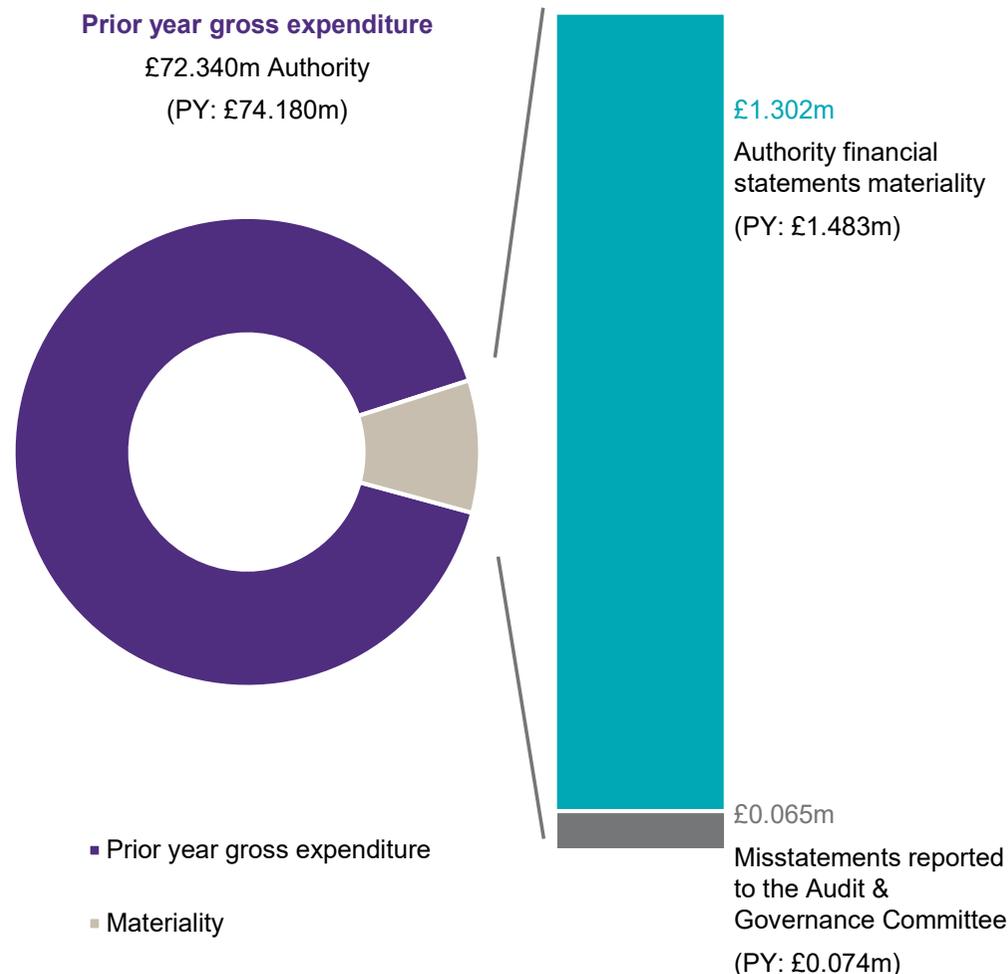
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.302m (PY £1.483m) for the Authority, which equates to 1.8% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £10k for senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the Audit & Governance 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. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.065m (PY £0.074m).

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 & Governance Committee to assist it in fulfilling its governance responsibilities.



# 7. Value for Money arrangements

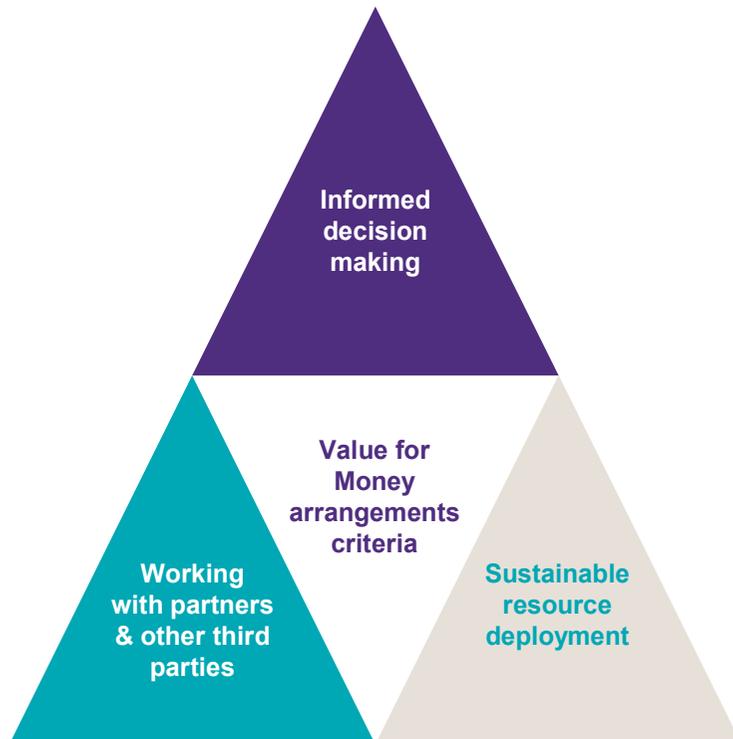
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance 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:



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## Significant VFM risks

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



### Financial Sustainability

West Lancashire Borough Council has historically been successful in being able to identify and implement the required savings to set and achieve a balanced budget.

The mid-year review of the General Revenue Account has identified that good progress is being made in delivering this budget position and that this target should be achieved at the year end. For the Housing Revenue Account, the latest position shows that a favourable budget variance of £1,232k is expected, representing 4.9% of total turnover.

Whilst this is a positive picture, the Authority will need to deliver the savings identified in order to ensure budgets are met at the year end.

The Draft Revenue Budget 2020/21, sets out that the Authority estimates that there is budget gap of £1.770m for 2020-21, £1.910m for 2021-22 and £1.910m for 2022-23. The budget gap reflects the difference between the spending that is required to maintain services at their agreed level and the resources that are expected to be available.

In order to help address these gaps going forward the Authority has undertaken a Sustainable Organisation Review Project. It is anticipated that the savings produced from this review combined with use of Authority reserves will close the gaps identified. The plan is that by 2022-23, no Council reserves will be required to balance the budget.

We will review budget monitoring reports and updates to the Medium Term Financial Plan. We will discuss with officers plans to address future potential budget gaps including the progress of the Sustainable Organisation Review and assess how the Authority is managing and monitoring financial pressures. We will continue to review and monitor revenue and capital reports.

# 8. Audit logistics & team



### Mark Heap, Key Audit Partner

Mark leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Authority.

### Stuart Basnett, Audit Manager

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

### Ying Li, Audit Incharge

Ying's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively, efficiently and supervises and co-ordinates the on-site audit team

### Client responsibilities

Where clients 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 clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

### Our requirements

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

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- 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.

# 9. Audit fees

## Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Head of Finance, Procurement and Commercial Property and is subject to PSAA agreement.

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	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Council Audit	£43,746	£38,154	£40,384
<b>Total audit fees (excluding VAT)</b>	<b>£43,746</b>	<b>£38,154</b>	<b>£40,384</b>

### Assumptions:

In setting the above fees, we have assumed that the Authority 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](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

# Audit fee variations – Further analysis

## Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	£33,684	
Raising the bar	£2,200	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	£1,750	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	£1,750	We have therefore increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
Covid-19 Response	£1,000	Fundamental to our audit response to Covid-19 will be working with you to understand the arrangements the Authority has in place to address relevant risks in respect of Covid-19 in its accounts preparation. We will also review the appropriateness of your disclosures, including those in respect of any estimation uncertainties around for example PPE and Pensions asset valuations
<b>Revised scale fee (to be approved by PSAA)</b>	<b>£40,384</b>	

# 10. Independence & non-audit services

## Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard 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 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 December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified:

Service	£	Threats	Safeguards
<b>Audit related:</b>			
Certification of Housing capital receipts grant	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is insignificant in comparison to the total fee for the audit of £43,746 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.
Housing Benefit Subsidy Form	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is insignificant in comparison to the total fee for the audit of £43,746 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.
<b>Non-audit related:</b>			
None			

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 Authority's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit & Governance Committee. 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. The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

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# Appendices

**A. Audit Quality – national context**

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# Appendix A: Audit Quality – national context

## What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

## Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

## What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

## What will be different in this audit?

We will continue working collaboratively with you to aim to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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4 May 2020

Dear Marc

**Audit scope and additional work 2019/20**

I hope you and your colleagues are all keeping safe and well in these very unusual and difficult times. In this letter, I want to update you on our plans to work with you over the coming months, and to ensure that we plan our audit effectively, to provide assurance for those charged with governance, and to deliver a high quality audit to all users of the audit, whilst also seeking to maintain our fee within the envelope which we discussed previously.

I wrote to you previously regarding our detailed audit proposals on 10 February 2020, to outline how the increased regulatory focus facing all audit suppliers was impacting on our planned audit programme. I set out in my letter my expectation of what this would mean for our audit coverage for 2019/20, as well as for the audit fee. Items I highlighted in particular included the impact of 'raising the bar' to meet the FRC's expectation that all audits would now achieve a level of 2a (acceptable with limited improvements only) or above. I explained that we would need to increase our managerial oversight to achieve this audit standard. In addition, I outlined how you should expect the audit team to exercise even greater challenge of management in areas that are complex, significant or highly judgmental. I also outlined the specific additional work which we would need to undertake in complex areas of the accounts with high estimation uncertainty, such as Property, Plant and Equipment and Pensions valuations. I will set out full details in our audit plan at the next Audit & Governance Committee, where I intended to advise that my estimate was that an additional fee of £6,700 would be required to complete the audit.

Subsequent to the above, global events have moved in an unexpected and tragic direction. None of us could have foreseen in January the impact that the Covid19 crisis has had on the world. As a local government body, you are at the forefront of efforts to support local people, and clearly the focus of the Authority will be directed to supporting local communities as best you can in these exceptionally difficult circumstances. As your auditors, we absolutely understand the challenges that you and your teams are facing, and we have already been discussing with you and your team how we can work with you as effectively as we can. At these challenging times it is even more important to ensure that we can deliver a high-quality audit, focused on good governance and the application of relevant accounting and auditing standards, whilst recognising the day to day pressures you face.

With this in mind we have revised the intended Audit Plan for 2019/20 and I attach this for your consideration. The following are the key points which I particularly wish to highlight for your attention.

**Addition of a significant audit risk in respect of Covid 19:**

The crisis has increased audit risk factors in the following areas:

- 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's estimates;
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and their overall financial resilience 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 have set out in the Audit Plan the additional work we propose to undertake in respect of this new significant risk. Fundamental to our response will be working with you to understand the arrangements the Authority has in place to address relevant risks in respect of Covid-19 in its accounts preparation. We will also review the appropriateness of your disclosures, including in respect of any estimation uncertainties around for example PPE and Pensions asset valuations.

#### **Value for Money and Financial Standing**

As part of our VfM work we will ensure we understand the arrangements you are putting in place to manage risks around business continuity in the current crisis. We do not envisage this will be a significant audit risk for 2019/20, although we will keep this under review for 2020/21. We will also review your assessment of going concern and financial stability in the light of increased uncertainties around for example Council Tax and NNDR collection rates, car park income, performance of subsidiary companies and investment properties. We envisage linking the additional VfM work around financial standing with our Going Concern opinion work.

#### **Regulatory changes.**

As you will be aware, earlier this month, CIPFA decided to adopt a small number of presentational changes to its Accounting Code of Practice for 2019/20. The changes which are now proposed to the Code, for example around disclosure, will have only a marginal impact on the audit. The additional audit risk factors that I highlighted in my January 2020 letter regarding raising the bar, PPE and Pensions work, for example, will therefore all still be required this year. You will also be aware that the Government accounting Financial Reporting Advisory Board (FRAB) has deferred the implementation of IFRS 16 by a year. Whilst IAS 8 disclosures will be required, this change will lead to some reduction in preparatory work required by both you and us, for this year at least.

Finally, MHCLG has revised the publication date for the draft accounts to 31 August and set a target date for publication of audited accounts of 30 November. Whilst flexibility in moving away from July is welcome, a number of authorities have highlighted the risk that a delayed closedown process could impact on their budget programme for 2021/22. We are keen to agree a timetable that works for you, and that we can both commit too. I will contact you to arrange a meeting to discuss.

#### **Fee impact**

As I set out in my previous letter, final audit fees are determined by PSAA, after the audit has been completed. At this stage, it is difficult to quantify the impact of the additional work required in respect of Covid-19. My best estimate is that, taking into account increased work in respect of Covid-19, and reduced work on IFRS 16, the fee set out in our Audit Plan, totalling £6,700, remains appropriate, and we will do our best to work within this envelope. Should circumstances change, we will let you know.

I hope this is helpful and allows you to plan accordingly for the 2019/20 audit. Should you wish to discuss this further, please do not hesitate to contact me. I attach a copy of our Audit Plan update for your comment. We look forward to working with you again this year.

Yours sincerely

**Mark Heap**  
**Engagement Lead and Key Audit Partner**  
For and on behalf of Grant Thornton UK LLP

