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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY

Grant Thornton

Audit Findings Report

West Lancashire Borough Council

Year ended 31 March 2019

October 2019

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of West Lancashire Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial statements audit	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements: • give a true and fair view of the financial position of the Council and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our findings are summarised on pages 4 to 15. Our work on the audit is complete. Appendix C sets out any adjusted or unadjusted errors we have identified. We did not identify any that would required modification of our audit opinion. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unmodified. We have raised five recommendations as a result of our accounts audit, which are reported in Appendix A. .
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that West Lancashire Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified opinion. Our findings are summarised on pages 16 to 19. We have raised two recommendations as a result of our VFM work, which are reported in Appendix A.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We will certify the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- an evaluation of the Council's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you in January 2019.

Conclusion

We have completed our audit of your financial statements and have issued an unqualified audit opinion.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for West Lancashire Borough Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,483,000	Considered to be the amount above which users of the accounts would wish to be aware of misstatements in the context of overall expenditure
Performance materiality	1,113,000	Assessed as 75% of financial statement materiality
Trivial matters	74,000	Matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.
Materiality for senior officer remuneration	2% of total remuneration for senior officer remuneration	This is a sensitive note in the accounts and is of interest to the public.
Materiality for related party transactions	Made on a case by case basis on whether the transaction is material to either party	This is a sensitive note in the accounts and is of interest to the public.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions	
Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	There have been no changes to our assessment reporting in the audit plan. 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: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including West Lancashire Borough Council, mean that all forms of fraud are seen as unacceptable Therefore, we do not consider this to be a significant risk for West Lancashire Borough Council. Our audit work has not identified any issues in respect of revenue recognition.
Management override of controls	
Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings The Authority revalues its land and buildings on a five-yearly basis. In the intervening years, 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 carries out a desktop revaluation to ensure that there is no material difference. GRA assets are due for a revaluation in 2018/19. This valuation represents a significant estimate by management in the financial statements. We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • 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 • discuss with the valuer the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test a sample of revaluations made during the year to confirm they have been input correctly into the Authority's asset register. The Council's land and buildings assets have been valued this year by the Council's in-house valuation team. Our work has assessed them as having a good knowledge of the Council's portfolio, and they have used information from the Asset Register and other Council estates systems in carrying out their valuation of the assets. The assumptions used are reasonable and we are satisfied that they had access to appropriate levels of information to complete reliable valuations. Our work identified a departure from the accounting requirements of the Code of Practice in relation to the Council's treatment of capital expenditure deemed by the council not to add value. The Council currently classes this expenditure as an impairment. The movement is instead a downward movement in valuation. The resulting accounting treatment does not impact on net book value in the note to the accounts. The Council carries out valuations of council houses and land and buildings as at 1 April each year. Council officers, including the in house valuation team, have carried out an assessed of whether based on their knowledge there is likely to be a material movement in valuation between that date and the year end of 31 March. Officers concluded that based on recent Right to Buy data and other local sales information there was no material movement in valuations between 1 April 2018 and 31 March 2019. We have reviewed officers' assessment and found it to be reasonable. In our view using local data, council houses are over valued by approximately £660k. Other land and buildings are under valued by approximately £658k. Therefore overall we are satisfied the council's land and buildings and council dwellings are not materially misstated. The Council has carried out a full review of the valuation of investment properties in 2018-19. These are also valued as at 1 April 2018. The Code states that "The fair value of investment property shall reflect market conditions at the end of the reporting period" therefore valuations should eb as at 31 March 2019. As part of our work we have used indices to assess the potential movement in valuation between 1 April 2018 and 31 March 2019. Our assessment is that on average the council's investment properties are under valued by around £1.246m. Going forward, the accounting policy and practice is not in line with Code requirements and should be reviewed.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability	
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. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£55.495 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. 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.	We have: • updated 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; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of 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. We draw your attention to page 8 where a national issue relevant to all local authorities requires them to consider and assess their circumstances and the impact upon the valuation of the pension fund net liability and the pension reserve. Other than this issue, we have not identified any significant issues in our work on the pension fund net liability.

Significant findings - other issues

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

Issue	Commentary
Net Pension Liability – McCloud judgement	
The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government recently applied to the Supreme Court for permission to appeal this ruling, but permission to appeal was unsuccessful. We understand the case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for the directly affected pension funds, but also for other public sector pension schemes where they have implemented transitional arrangements on changing benefits, including the local government pension scheme. Discussion has been ongoing through June and July in the sector regarding the impact of the ruling on the financial statements of local government bodies. Many councils had initially included the impact of the McCloud judgement as a contingent liability in their 2018/19 accounts. However as the picture has now become clearer there is now a general acceptance that the increased liability, where material, should be reflected in the IAS 19 figures in the balance sheet.	The Council has reviewed their judgement and accounting treatment for the McCloud ruling, as the draft financial statements did not factor in the impact of the case in the pension liability figures provided by the Actuary. The Council requested the Actuary to perform a review of the impact of the McCloud case. The revised report from the actuary estimated the impact on the Council's pension liability to be an increase of £1.028m. We are reviewing work from our internal actuaries to provide us with assurance over the assumptions and methods employed by Mercers in compiling the McCloud liability estimates. The Council has amended the financial statements to reflect the revised figures from the updated actuary's report.

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Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Council Housing - £167.4m	The Authority revalues its land and buildings on a five-yearly basis. In the intervening years, 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 carries out a desktop revaluation to ensure that there is no material difference. A full valuation of council housing was last completed in 2015/16.. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£167.4 million) and the sensitivity of this estimate to changes in key assumptions.	We reviewed the detail of your assessment of the estimate, considering; • the assessment of management's expert, your internal valuer; • the assessment of the auditor's expert, Gerald Eve; • the completeness and accuracy of the underlying information used to determine the valuation; • the reasonableness of the change in the valuation including comparison with market trend report provided by our auditor expert Gerald Eve; and • the adequacy of the disclosure of the estimate in the financial statements The Council has completed a desk top review of council housing for 2018/19 as at 1 April 2018 which has resulted in an increase in the value of housing stock of around £3m. We have reviewed and challenged management's assessment of the potential impact of those assets not formally revalued this year. We have reviewed the Council's methodology and assumptions used during this review and found them to be reasonable. Our assessment of potential movement in valuation of council houses shows an approximate over valuation of £660k	●

Assessment

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

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Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £26.4m	The Authority revalues its land and buildings on a five-yearly basis. In the intervening years, 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 carries out a desktop revaluation 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 (£26.4 million) and the sensitivity of this estimate to changes in key assumptions. Valuations are carried out during the year and the valuations are assessed as at 1 April 2018.	We reviewed the detail of your assessment of the estimate, considering; • the assessment of management's expert, your internal valuer; • the assessment of the auditor's expert, Gerald Eve; • the completeness and accuracy of the underlying information used to determine the valuation; • the reasonableness of the change in the valuation including comparison with market trend report provided by our auditor expert Gerald Eve; and • the adequacy of the disclosure of the estimate in the financial statements. GRA land and buildings were revalued in full for 2018/19 with a valuation date of 1 April 2018 and an overall reduction in value of around £2m. Because the valuation date was 1 April 2018 we have assessed using indices whether there has been any material movement since that date and concluded that there could be a potential under valuation between £402k - £658k. As this is not material we are satisfied the valuation in the accounts is reasonable. The Council's has valued Investment Properties as at 1 April 2018. The Code states that "The fair value of investment property shall reflect market conditions at the end of the reporting period". The accounting policy and practice is not in line with Code requirements. We have used indices to assess the potential movement in valuation between 1 April 2018 and 31 March 2019 and are satisfied Investment Properties are not materially misstated. Our work did not identify any significant issues.	

Assessment

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

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Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £55.9m	The Council's net pension liability at 31 March 2019 is £55.9 million (PY £55.5 million) comprising the Local Government Pension Scheme and unfunded discretionary pension scheme obligations. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements	We reviewed the detail of your assessment of the estimate, considering; • the assessment of management's expert, Mercers; • the completeness and accuracy of the underlying information used to determine the estimate; • the reasonableness of the Council's share of the LGPS assets; • the reasonableness of the overall increase in the estimate; • assessment of actuary's roll forward approach taken, detail work undertaken to confirm reasonableness of approach; • use of PWC as auditor's expert to assess the actuary and assumptions made by actuary – see table below for our evaluation of the Actuary's key assumptions; • adequacy of disclosure of the pension estimates in the financial statements. • the adequacy of the disclosure of the estimate in the financial statements. External auditors are provided with assurance in the form of an auditors expert report from PWC to assess the assumptions made by the Actuary. The table below sets out the key assumptions. At the time of writing our work in this area is ongoing. We draw your attention to page 8 to the national issued in respect of the McCloud judgement, which has led to an increase in the pension liability.	

Assumption	Actuary value	PwC range	Assessment
Discount rate	2.4%	2.4 - 2.5%	
Pension increase rate	2.3%	2.2% - 2.3%	
Salary growth	3.7%	3.1% - 4.35%	
Life expectancy – Males currently aged 45 / 65	90.- 90.1/ 87.7-87.8	89.8 - 91.3 / 88.2 - 88.7	
Life expectancy – Females currently aged 45 / 65	93 – 93.2/ 90.4 – 90.5	92.9-94 / 90-91.4	

Assessment

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

Significant findings – matters discussed with management

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

Significant matter	Commentary
Significant events or transactions that occurred during the year	• There were two new accounting standards in 2018/19 IFRS9 and IFRS15 which should be implemented rom 1 April 2018. The financial statements submitted for audit did not include any of the required disclosures in respect of these new accounting standards. • Officers have now assessed the likely impact and in their view the new standards do not have a material impact to the financial statements. However the Council is required to comply with the disclosures set out in the Code and so have amended the accounts to reflect some of the requirements of IFRS9. • The classification of financial instruments disclosed within the financial statements has been updated and we are currently assessing the assumptions and judgements of management in respect of the requirements. • The disclosures in the amended financial statements are not fully compliant with the requirements of the Code.
Business conditions affecting the Council, and business plans and strategies that may affect the risks of material misstatement	• No such items identified
Concerns about management's consultations with other accountants on accounting or auditing matters	• No such items identified
Discussions or correspondence with management in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services	• We were re-appointed as auditors of West Lancashire Borough Council for five years from 2018/19. • We issued our 2018/19 Audit Plan in January 2019 and presented this to the Audit and Committee at the January 2019 meeting.
Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	• No such matters identified
Other matters that are significant to the oversight of the financial reporting process	• Other than those above – no such matters identified.

Significant findings - Going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary	Auditor commentary
Management's assessment process	
The Council has reviewed their going concern position and has concluded that it is appropriate to produce their accounts on a going concern basis and no material uncertainties exists.	• The Council's use of the going concern basis of accounting is appropriate. • The Council's has provided us with an assessment of the going concern basis. This is based on: - the Council having met their budgeted expenditure for 2018/19; - the Council having set a balanced budget for 2019/20; and - the Council's assessment of future funding requirements in the Medium Term Financial Forecast. • The disclosure of the going concern basis within the financial statements is satisfactory.
Work performed	
We have considered the financial standing of the and reviewed management's assessment of going concern and the assumptions and supporting information.	• Our work has not identified any material uncertainties to the going concern assumption
Concluding comments	
The Council's use of going concern basis of accounting is appropriate.	• Our opinion is expected to be unmodified in respect of the going concern conclusion

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have made specific inquiries to management and to the Chair of the Audit and Governance Committee regarding the processes the Council has in place to prevent and detect fraud. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures. Our sample testing of transactions has not identified any fraudulent transactions. Our review has also considered: • related party transactions, in particular those that are complex, outside the normal course of business or involve management or those charged with governance; • consideration of any management bias in preparing key estimates; and • disclosures in the financial statements.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. Members are required to keep the register of their interests up to date and the register for each member is included on the Council's website. Offices of the council are reminded annually of the requirement to declare any interests. Members and senior officers are not required to make annual year end declarations in relation to their interests. We recommend that members and senior officers are required to make annual year end declarations (including nil declarations) of any interests they hold.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council.
Confirmation requests from third parties	We have previously requested from management permission to send confirmation requests to your bank and those bodies with which you hold investments. We have received all requested external confirmations.
Disclosures	We have highlighted on page 12 issues in relation to the disclosure requirements of IFRS9.
Audit evidence and explanations/significant difficulties	Due to delays in receiving some of the audit information requested and due to the impact of the McCloud judgements and related changes to the accounts the audit work was completed after the target date of 31 July.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. This work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2018/19 audit of West Lancashire Borough Council in the audit opinion. However, due to delays in receiving some of the audit information requested and due to the impact of the McCloud judgements and related changes to the accounts, it is not clear whether we will be able to issue our opinion by the deadline of 31 July. The Council's responsibility under the Accounts and Audit Regulations 2015 is to publish an explanation of why the audited accounts are not available by 31 July 2019. The Regulations do not require the audit to be completed by this date. Provided it does this, the Council will not be in breach of its requirements under the Audit and Accountability Act 2014.

Value for Money

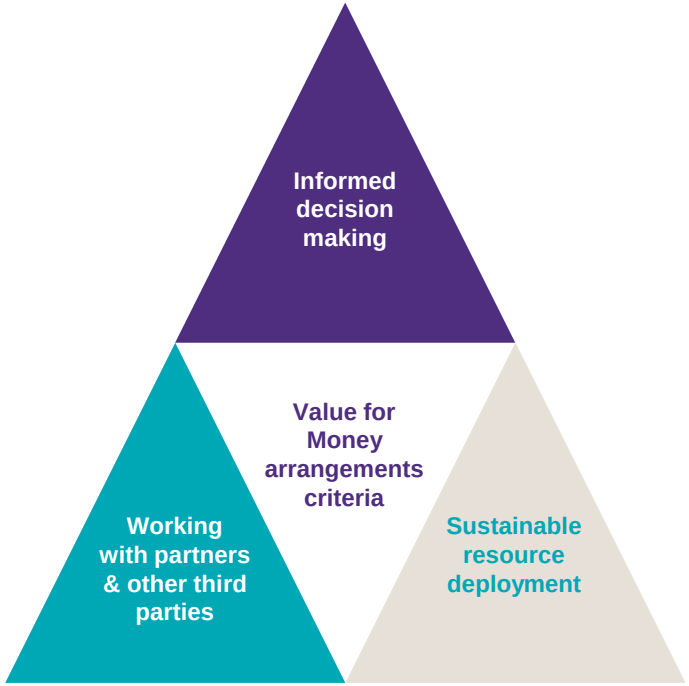
Background to our VFM approach

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

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated January 2019.

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

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

Value for Money

Our work

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

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- review of budget monitoring reports and updates to the Medium Term Financial Plan
- discussion with officers regarding plans to address future potential budget gaps including the progress of the Sustainable Organisation Review
- Assessment of how the Council is managing and monitoring financial pressures including the review of revenue and capital reports.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on page 19.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Recommendations for improvement

We discussed findings arising from our work with management. We have made one recommendation which is included on page 19 and in the action plan in Appendix B.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

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

Significant risk	Findings
Financial Sustainability	
West Lancashire Borough Council has a good track record of making the savings required in order to set and achieve a balanced budget. However, there is increasing pressure due to growing demands around services and rising financial pressures. At the mid way point of the year the Authority was forecasting a favourable variance of £40k on the GRA budget and £1.146m on the HRA budget Whilst this was a positive picture, the Authority needed to deliver the savings identified in order to ensure budgets were met at the year end. The latest Medium Term Financial Plan update issued in October, set out that the Authority estimated there would be a budget gap of £1.53m for 2019-20, £1.77m for 2020-21 and £1.91m for 2021-22. In order to help address these gaps going forward the Authority is undertaking a Sustainable Organisation Review. It is anticipated that the savings produced from this review combined with use of Authority reserves will close the gaps identified.	• The Council set a balanced GRA budget for 2018-19 prior to the start of the year and achieved this budget with a positive variance of £49k against the planned budget. Performance against budget was monitored through the year and the variance was in line with the Council's forecasts, the mid-year review had forecasted a positive variance of £40k. • The capital budget was underspent by around £1.5m. This underspend was spread over a number of schemes across different directorates and the underspend will be slipped into the 2019/20 year to complete the relevant schemes. • The HRA budget was under spent by around £1.7m. Much of this is due to vacant posts and a change in method of delivery for the painting contract for the maintenance of property. • The year-end Treasury Management Performance Report set out that the Council has achieved its prudential indicators for the year and kept within agreed borrowing limits. • The Council plan for 2019-2021 sets out the Council's priorities for the next couple of years including proposals to address financial pressures and information around the organisational review and what it hopes to achieve. • The Medium Term Financial Forecast (MTFF) was updated in October 2018. As set out aside this estimates a cumulative budget gap of £1.53m for 2019-20, £1.77m for 2020-21, and £1.91m for 2021-22. The main mechanism for addressing the budget gap facing the Council is the Sustainable Organisation Review process (SORP). The MTFF went to the Council in October and is due to be updated further after the Sustainable Organisational Review (SORP) is finalised. • The report and supporting information for the SORP went to Council on 10 July 2019. We reviewed the Council's proposals and have raised some areas for the Council to consider further: - Organisation structure – the Authority should ensure that the designated officers have sufficient status and capacity to properly fulfil the statutory duties of the s151 officer and the monitoring officer in addition to any other responsibilities.

Key findings

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

Significant risk	Findings
Financial Sustainability	
West Lancashire Borough Council has a good track record of making the savings required in order to set and achieve a balanced budget. However, there is increasing pressure due to growing demands around services and rising financial pressures. At the mid way point of the year the Authority was forecasting a favourable variance of £40k on the GRA budget and £1.146m on the HRA budget Whilst this was a positive picture, the Authority needed to deliver the savings identified in order to ensure budgets were met at the year end. The latest Medium Term Financial Plan update issued in October, set out that the Authority estimated there would be a budget gap of £1.53m for 2019-20, £1.77m for 2020-21 and £1.91m for 2021-22. In order to help address these gaps going forward the Authority is undertaking a Sustainable Organisation Review. It is anticipated that the savings produced from this review combined with use of Authority reserves will close the gaps identified.	- Cash investment income – the Authority needs to consider Statutory Guidance on Local Government Investments. If the Authority is considering longer term investments, the Authority needs to consider liquidity risk to ensure funds invested are available for expenditure when needed. - Commercial property investment – Commercial property investment brings risk, which needs to be effectively managed. We recommend that the Authority undertakes due diligence and considers the scrutiny and risk management arrangements before making any investments. • Agreed proposals are due to be implemented going forward from 2019/20 and we will review the detailed proposals as part of our value for money work in 2019/20. We have raised two recommendations regarding our consideration of the Council's SORP proposals in Appendix A. • Based on the above, we have not identified any significant issues that would impact on our VFM conclusion.

Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Audit and Non-audit services

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

	Fees £	Threats identified	Safeguards
Audit related			
Pooled capital receipts return	1,750 (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 £1,750 in comparison to the total fee for the audit of £33,684 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 mitigate the perceived self-interest threat to an acceptable level.
Housing Benefit Subsidy Form	12,000	Self-Interest (because this is a recurring fee)	The level of this fee is set by Public Sector Audit Appointments and the work undertaken follows DWP requirements. The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,000 in comparison to the total fee for the audit of £33,684 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 mitigate the perceived self-interest threat to an acceptable level.
Housing Benefit Subsidy Form – additional fee 2017/18	5,190	Self-Interest (because this is a recurring fee)	The level of this additional fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,190 in comparison to the total fee for the audit of £33,684 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 mitigate the perceived self-interest threat to an acceptable level.

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 require approval by the Audit and 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.

Action plan

We have identified seven recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
●	**SORP implementation – statutory roles** One of the outcomes from the SORP review is to create a leaner management structure in order to make efficiency savings to create a financial sustainable organisation.	The Authority needs to ensure that the designated officers have sufficient status and capacity to properly fulfil the statutory duties of the s151 officer and the monitoring officer in addition to any other responsibilities **Management response** This issue was considered in the design of the new structure and will be kept under review as the new structure is implemented.
●	**SORP implementation – investment strategy** As part of the SORP review, the Authority is considering making longer term cash investments which may increase liquidity risk. In addition, the Authority is considering expanding its investments in commercial property, whose fair value tends to fluctuate more due to changes in market prices.	The Authority needs to consider Statutory Guidance on Local Government Investments. If the Authority is considering longer term investments, the Authority needs to consider liquidity risk to ensure funds invested are available for expenditure when needed. In terms of commercial property investment, we recommend that the Authority undertakes due diligence and considers the scrutiny and risk management arrangements before making any investments. **Management response** A report will be presented to the October 2019 Council meeting that will cover these issues.

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

Action plan

Assessment	Issue and risk	Recommendations
●	**Draft statement of accounts – compliance with the Code** The initial set of accounts received did not include the required disclosures under the Code in relation to financial instruments. As the Council diversifies its investments – especially under the SORP – it will need to ensure that disclosure requirements are fully complied with	We recommend the Council reviews this in 2019/20 and ensures it complies with all disclosure requirements set out in the Code. **Management response** A full review of compliance with Code requirements on financial instruments will take place for the 2019/20 accounts.
●	**Super user access to financial ledger** The Council has three system administrators for the financial systems who are able to make changes to the parameters of the system and are also able to post financial transactions. The Council has approval processes in place and is able to obtain details from the system on individual items, however, there is a risk that the system could be open to manipulation.	We recommend the Council reviews its user access and ensure sufficient processes are in place to provide assurance over separation of access and role. **Management response** Agreed
●	**Related party transactions** Members are required to keep the register of their interests up to date and the register for each member is included on the Council's website. Offices of the council are reminded annually of the requirement to declare any interests. Members and senior officers are not required to make annual year end declarations in relation to their interests.	We recommend that members and senior officers are required to make annual year end declarations (including nil declarations) of any interests they hold. **Management response** This recommendation is rejected on the basis that the current arrangements are satisfactory and the additional work that would be created by implementing this proposal would not be justified by the value it would add. **Auditor view on management response** This recommendation is good practice to lessen the risk to the Council of any undeclared conflicts of interest and related party transactions.

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

Action plan

Assessment	Issue and risk	Recommendations
●	**Investment Property** The Council's has valued Investment Properties as at 1 April 2018. The Code states that "The fair value of investment property shall reflect market conditions at the end of the reporting period". The accounting policy and practice is not in line with Code requirements.	We recommend that going forward the accounting policy and practice should be reviewed as currently is not in line with Code requirements. **Management response** We do not accept the auditors finding that Code requirements have not been met. We also reject the assertion put forward by the auditors that the value of investment properties have been undervalued by £1.246m. From the information provided to us it appears that this figure has been calculated by looking at asset indices for the North West region that do not reflect local circumstances in West Lancashire or the Council's asset base. It also does not appear that the professional valuers used by Grant Thornton have even visited the Borough to reach this conclusion. Consequently we believe that the asset values included in the statement are accurate. **Auditor view on management response** To be clear, we have reached a conclusion that the likely valuation movement of investment properties since the 1 April 2018 valuation is not material. Therefore, we are not seeking the Council to amend its account. The recommendation solely relates to compliance with the requirement in the CIPFA Code to ensure the value of investment properties reflect the market at the year end. The Council valued its investment properties as at 1 April 2018 so the date of valuation does not comply with requirements of the Code. Going forward, if the Council continues to value its investment property on the 1 April, there is a risk that at the year end there may be a material difference in the value of investment properties in the Council's accounts and their market value at the year end. If this was the case we would need to complete additional work in this area which is highly likely to cause a delay in signing off the accounts. Also, any additional audit work would result in additional audit fees for the Council particularly if our initial work indicated that we will need to ask our professional valuers to undertake a valuation. Our recommendation was raised in order to reduce these risks to the Council so by rejecting the recommendation, the Council is accepting these risks.

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

Action plan

Assessment	Issue and risk	Recommendations
●	**Valuation of land & buildings and council houses** The valuation of the Council's land and buildings and of council houses is made as at 1 April. This means there is potentially a risk of material movement in valuation between the date of valuation 1 April and the year end 31 March.	We recommend that the Council undertakes valuations as at 31 March **Management response** We reject the auditor's findings that the value of land and buildings has been understated by £0.658m and the value of Council houses has been overstated by £0.660m. The auditors have not used professional valuers with any local knowledge to reach this conclusion and consequently we do not believe it to be credible. The recommendation that the valuations take place at 31st March is rejected as this would not allow sufficient time for the Council to produce its draft accounts by the regulatory deadline of 31 May each year. We believe it is important that this 2 month timescale is met to ensure the timeliness of the accounts. **Auditor view of management response** To be clear, we have reached a conclusion that the likely valuation movement of land and buildings and council dwelling since the 1 April 2018 valuation is not material. Therefore, we are not seeking the Council to amend its account. Going forward, if the Council continues to value its land and buildings and council dwellings on the 1 April, there is a risk that at the year end there may be a material difference in the value of these in the Council's accounts and their market value at the year end. If this was the case we would need to complete additional work in this area which is highly likely to cause a delay in signing off the accounts. Also, any additional audit work would result in additional audit fees for the Council particularly if our initial work indicated that we will need to ask our professional valuers to undertake a valuation. Our recommendation was raised in order to reduce these risks to the Council so by rejecting the recommendation, the Council is accepting these risks.

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

Follow up of prior year recommendations

We identified the following issues in the audit of West Lancashire Borough Council's 2017/18 financial statements, which resulted in one recommendation being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented our recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	We identified that there is no annual reconciliation between the information that the Estates section hold and the Fixed Asset Register held by the finance section. There is a risk that the two sources of information may have inconstancies that would only be identified in the five year revaluation exercise.	We have confirmed a reconciliation between the information held by the Estates section and the Fixed Asset Register has been completed.

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments - adjusted

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
McCloud judgement	656	Pension liability (656)	656
The Court of Appeal has recently ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.		Pension reserve 656	
The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.			
The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other public sector pension schemes where they have implemented transitional arrangements on changing benefits.			
Discussion has been ongoing through June and July in the sector regarding the impact of the ruling on the financial statements of Local Government bodies. Many local government bodies had initially included the impact of the McCloud judgement as a contingent liability in their 2018/19 accounts. However as the picture has now become clearer there is now a general acceptance that the increased liability, where material, should be reflected in the IAS 19 figures in the balance sheet.			
The Council obtained an updated pension report from its actuary Mercers and has amended the financial statements to reflect the updated figures.			
Overall impact	**£656**	**£0**	**£656**

Audit Adjustments - unadjusted

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of unadjusted misstatements

All unadjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Investment properties	1,246	1,246	1,246
The Council has carried out a full review of the valuation of investment properties in 2018-19. These are valued as at 1 April 2018. The Code states that "The fair value of investment property shall reflect market conditions at the end of the reporting period" therefore valuations should eb as at 31 March 2019. As part of our work we have used indices to assess the potential movement in valuation between 1 April 2018 and 31 March 2019. Our assessment is that on average the council's investment properties are under valued by around £1.246m. Going forward, the accounting policy and practice is not in line with Code requirements and should be reviewed			
Overall Impact	1,246	1,246	1,246

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of unadjusted misstatements - misclassification and disclosure changes

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Disclosure omission	Detail	Auditor recommendations	Adjusted?
IFRS 9 Financial Instruments	The Council has not fully applied the required disclosures set out in the Code in relation to Financial Instruments.	We recommend the Council reviews this in 2019/10 and ensures it complies with all disclosure requirements set out in the Code.	X
Council Houses – capital expenditure not adding value	Our work identified a departure from the accounting requirements of the Code of Practice in relation to the Council's treatment of capital expenditure deemed by the council not to add value. The Council currently classes this expenditure as an impairment. The movement is instead a downward movement in valuation. The resulting accounting treatment does not impact on net book value in the note to the accounts.	We recommend the Council reviews it's treatment and disclosure of capital expenditure not deemed to add value.	X

Fees

We confirm below our final fees charged for the audit and provision of other audit services. * The additional fees are subject to approval by PSAA.

Audit fees	Proposed fee	Final fee
Council Audit	33,684	33,684
Additional work relating to McCloud issue	-	1,500
Additional audit work relating to valuation of land and buildings and valuation of pension liabilities arising from increased expectations of the Financial Reporting Council	-	3,000
Total audit fees (excluding VAT)	**33,684**	**38,184**

Due to the nature of this year's audit, which has resulted in additional audit procedures on the value of your pension liability and property, plant and equipment (PPE), we are proposing to request an additional fee to cover the cost of this work. Where we charge additional fees the value has to be agreed with both the Council and Public Sector Audit Appointments Ltd. We will include the final proposed fee in our Annual Audit Letter.

Fees for other services	Fees £'000
Audit related services:	
• Housing Benefit subsidy return (TBC)	12,000
• Pooled housing Capital Receipts return (TBC)	1,750
Total non-audit fees (excluding VAT)	**£13,750**

Note 31 to the financial statements shows fees for certification of grant claims as £18k.

The fees for the audit reconcile to the financial statements for the certification of grant claims as follows:

- Housing benefit subsidy return £11,195 (17/18 fee charged in 18/19) plus £5,190 additional fee charged for additional work performed on behalf of the Council (see below); and
- Pooled capital receipts £1,750.

In previous years, officers from the Council's Revenue and Benefits Service have completed the work books, which record the certification testing. In 2017/18, officers were unable to do this because their system had been upgraded and they were unable to gain access to Excel 2010 which is required to run the work books. Therefore, staff from Grant Thornton had to complete the work books meaning significant additional resource was required. The fee for the work set by PSAA for 2017/18 was £11,195. We charged an additional £5,190 in relation to this work. We agreed the fee with officers and obtained PSAA approval. As required, we are reporting this fee variation to the Audit and Governance Committee.