Grant Thornton

Annual Audit Letter

West Lancashire Borough Council

Year ended 31 March 2019

December 2019

Contents

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Executive Summary

Purpose

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

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our final Audit Findings Report on 29 October 2019.

Respective responsibilities

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

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

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

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,483,000, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 30 October 2019.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO. The Council was below the threshold so did not require an audit of it's WGA return.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 October 2019.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this is complete. We will report the results of this work to the Audit and Governance Committee separately.
Certificate	We certified that we have completed the audit of the financial statements of West Lancashire Borough Council in accordance with the requirements of the Code of Audit Practice on 30 October 2019.

Audit of the Financial Statements

Materiality

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

We determined materiality for the audit of the Council's financial statements to be £1,483,000, which is 2**%** of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of 2% of total remuneration for senior officer remuneration and for related party transactions on a case by case basis.

The scope of our audit

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

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

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

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings The 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.	As part of our audit work we: • 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.

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings *(continued)*		We have reviewed officers' assessment and found it to be reasonable. In our view using local data, Council houses are potentially over valued by approximately £660k. Other land and buildings are potentially 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.

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of net pension 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	As part of our audit work we: • 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.	The Court of Appeal 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. The legal ruling around age discrimination (McCloud - Court of Appeal) had implications for other public sector pension schemes where they had implemented transitional arrangements on changing benefits, including the local government pension scheme. Discussion has been ongoing through June and July in the and as the picture became clearer there was a general acceptance that the increased liability, where material, should be reflected in the IAS 19 figures in the balance sheet. 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. The Council amended the financial statements to reflect the revised figures from the updated actuary's report. Other than this issue, we did not identify any significant issues in our work on the pension fund net liability.

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal 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.	As part of our audit work we: • 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 did not identified any issues in respect of management override of controls.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 30 October 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline. 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.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Governance Committee on 30 October 2019.

In addition to the key audit risks reported above, we identified the following issues/adjustments throughout our audit that we have asked the Council's management to address for the next financial year:

- There were two new accounting standards in 2018/19 IFRS9 and IFRS15 which were implemented from 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 assessed the likely impact and in their view the new standards did 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 amended the accounts to reflect some of the requirements of IFRS9. The classification of financial instruments disclosed within the financial statements was updated however disclosures in the amended financial statements were not fully compliant with the requirements of the Code.

Annual Governance Statement and Narrative Report

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

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

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of [name of Council] in accordance with the requirements of the Code of Audit Practice on 30 October 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

Key findings

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

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

As part of our Audit Findings report agreed with the Council in October 2019, we agreed recommendations to address our findings.

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Overall Value for Money conclusion

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

Value for Money conclusion

Risks identified in our audit plan	Findings and conclusions
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 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. - 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.

Value for Money conclusion

Risks identified in our audit plan	Findings and conclusions
Financial sustainability *(continued)*	• 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.

A. Reports issued and fees

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

Report	Date issued
Audit Plan	January 2019
Audit Findings Report	October 2019
Annual Audit Letter	December 2019

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	33,684	38,184	33,684
Housing Benefit Grant Certification	12,000	12,000	16,685
Pooled Housing Capital Receipts	TBC	TBC	1,750
Total fees	**TBC**	**TBC**	**52,119**

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £33,684 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£1,500
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£1,500
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£1,500
Total		**£4,500**

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