



The Audit Findings for West Lancashire Borough Council

Year ended 31 March 2020

26 January 2021



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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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 2020 for those charged with governance.

Covid-19	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of Council .</p> <p>The Council has been responsible for the receipt, processing and distribution of Covid Support Grants and Business Rates Relief that required finance staff to be re-deployed from normal duties while working remotely. During the 2021 financial year the Council has lost income from closure car parks and over the summer of 2020 the additional challenges of reopening services under new government guidelines.</p> <p>Authorities 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 financials statements to 30 November 2020.</p>	<p>Our audit risk assessment included in our audit plan considered the impact of the pandemic on our audit work. We reported a financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel has meant both Council and audit staff have had to work from home. This has presented audit challenges such as verifying remote access to financial systems, the absence of physical evidence of transactions and balances, the need to use video calling to observe processes that provided assurance over the completeness accuracy of information produced by the entity, and the lack of physical verification of assets.</p> <p>For West Lancashire Borough Council there have been many competing demands on staff time. The draft financial statements were received on 5 October, five weeks after the statutory deadline. This delay compounded by sickness issues meant the audit deadline of 30 November 2020 was impossible to meet. We agreed with officers that we would work together towards a target date of 29 January.</p>
Financial Statements	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>	<p>Our audit work was completed remotely during October to January . Our findings are summarised on pages 5 to 15. We have identified no adjustments to the financial statements that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix E] or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> • receipt of management representation letter, • review of the final set of financial statements and annual governance statement, • final review of the work on property valuations • testing of debtors and other income • testing of creditors and expenditure cut-off • testing of grants and grant income <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. The financial statements we have audited is up until 31 March 2020, which was prior to the outbreak of the Covid-19 coronavirus pandemic.</p> <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the disclosure of material valuation uncertainties in respect of property valuations in both the Council's and Lancashire Pension Fund Financial Statements arising from the Covid 19 pandemic. 3</p>

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 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	<p>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, except in relation to informed decision making and the ability to produce timely financial information.</p> <p>We updated our original VFM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We concluded that the delay to the publication of draft financial statements and the impacts of changes to the management structure as a result of the Sustainable Organisation Review Project (SORP), represented risks to the value for money conclusion and found weaknesses in the Council's arrangements, relating to the production of financial statements.</p> <p>Our findings were that the arrangements for ensuring capacity with the finance team for preparing the financial statements and supporting the audit we were weak.</p> <p>We therefore anticipate issuing a qualified 'except for' value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 16 to 20.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> 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. 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

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

Audit approach

Overview of the scope of our audit

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

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

Audit approach

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

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

Our audit plan, as communicated to you and discussed at the Audit and Governance Committee on 24 July, included our proposed response to the Covid-19 pandemic. We have not had to alter our audit plan since that time.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion in the days following the Audit and Governance Committee meeting on 26 January 2021, as detailed in Appendix E. These outstanding items include:

- receipt of management representation letter,
- review of the final set of financial statements and annual governance statement,
- final review of the work on property valuations
- testing of debtors and other income
- testing of creditors and expenditure cut-off
- testing of grants and grant income

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan.

	Planning stage (£000s)	Final Stage (£000s)	Qualitative factors considered
Materiality for the financial statements	1,302	1,302	This is considered to be the amount above which the users of the financial statements of accounts would be moved to change their view of the financial performance and financial standing of the Council. It is set in the context of gross expenditure on services.
Performance materiality	977	977	This is set at 75% of financial statement materiality and is designed to ensure appropriate coverage.
Trivial matters	65	65	This is the amount below which matters are clearly inconsequential whether taken individually or in aggregate. All matters are reported to management regardless of value.
Materiality for senior officer remuneration disclosures	10	10	This is a sensitive note in the financial statements and is of interest to the public.

Significant audit risks

Risks identified in our Audit Plan

Covid-19

Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 5 October 2020;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council property valuation expert
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;

As set out in more detail on page 14 the impact of the demands on the Council's finance team has resulted in work taking longer to complete. Restrictions for non-essential travel has meant both Council and audit staff have had to work from home. This has presented audit challenges such as verifying remote access to financial systems, the absence of physical evidence of transactions and balances, the need to use video calling to observe processes that provided assurance over the completeness accuracy of information produced by the entity, and the lack of physical verification of assets.

Both Grant Thornton UK LLP and the Council have had to re-deploy resources to cover staff sickness.

Improper revenue recognition

In our audit plan we set out the basis on which we consider it possible to rebut the risk of improper revenue recognition. Having reviewed our assessment following receipt of the financial statements our assessment remains unchanged.

Significant audit risks

Risks identified in our Audit Plan

Management override of controls

Auditor commentary

We have evaluated the design effectiveness of management controls over journals

- analysed the journals listing, determine the criteria for selecting high risk unusual journals
- tested identified 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

Valuation of land and building

The Council revalues its land and buildings on a five-yearly basis. In the intervening years, to ensure carrying value in the Council financial statements is not materially different from the current value or fair value (for surplus assets) at the financial statements date, the Council carries out a desktop revaluation to ensure that there is no material difference. GRA assets were revalued in 2019 and HRA assets revalued this year.

This valuation represents a significant estimate by management.

We therefore identified valuation of land and buildings as a significant risk of material misstatement.

We have:

- Evaluated management's process and assumptions and the instructions issued to valuers.
- Evaluated the competence, capabilities and objectivity of valuers
- Discussed with the valuer the basis on which the valuation was carried out to ensure the requirements of the Code were met.
- Challenged information and assumptions used by the valuer
- Tested a sample of valuations made during the year to confirm they are consistent with the methodology and assumptions and have been correctly accounted for.

The Council's Investment land and buildings assets have been valued this year by the Council's in-house valuation team supported by work of a management expert Sutton Kersh. 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.

The Council carries out valuations 1 April each year. Council officers, including the in-house valuation team, have carried out an assessment 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. We have reviewed officers' assessment and found it reasonable. In our view, looking at national data, there is the potential for management's estimate of the value Operational Land and Buildings to be understated by £485k and for estimate of the value of Investment Properties to be over-stated by £406k. The valuation of Council dwellings reflects changes up to 31 March 2020.

Our audit work has not identified any further issues in respect of valuation of land and buildings other than the declaration of a material value uncertainty arising for the outbreak of Covid 19, which will be the subject of an Emphasis of Matter paragraph. An Emphasis of Matter is not a qualification of our opinion, rather it is used to draw the readers attention to a disclosure in the financial statements which is considered fundamental to their understanding of the financial statements.

Our work in this area is subject to final review.

Significant audit risks

Risks identified in our Audit Plan

Valuation of pension fund net liability

The pension fund liability is considered a significant estimate due to the size and the sensitivity of the estimate to changes in key assumptions. We therefore identified the valuation of the Council's liability as a significant risk of material misstatement.

Auditor commentary

Our work has included;

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- 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 the auditor's expert) and performing any additional procedures suggested within the report;
- requested 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 Lancashire Pension Fund financial statements.

Our audit work has not identified any issues in respect of valuation of the pension fund net liability other than the declaration of a material value uncertainty arising for the outbreak of Covid 19, which appears in the Financial Statements of the Lancashire Pension Fund. This is relevant to the Council because its attributable share of the pension fund property assets is material in the context of the Council's financial statements. This will be the subject of an Emphasis of Matter paragraph.

An Emphasis of Matter is not a qualification of our opinion, rather it is used to draw the readers attention to a disclosure in the financial statements which is considered fundamental to their understanding of the financial statements.

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>IFRS 16 implementation has been delayed by one year</p> <p>Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.</p>	<p>We have reviewed the disclosures in the financial statements against the requirements of the Code.</p>	<p>The Council has provided the minimum disclosures necessary. On 31 March 2020, the Council held a small number of operating leases as lessee which had an unexpired term of less than one year and therefore the effect of the changes is unlikely to be material. The Council has a significant number of operating leases as lessor, but these are significantly affected by the change in the standard.</p>

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Council Dwellings £171m and Land and Buildings – Other ££26m	<p>The Council revalues its land and buildings on a five-yearly basis. In the intervening years, to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the Council carries out a desktop revaluation to ensure that there is no material difference.</p> <p>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.</p> <p>A full revaluation of the general fund assets took place in 2019 and a full revaluation of the Council Dwellings took place in 2020.</p> <p>At the last valuation date Other Land and Buildings comprised £11m of specialised assets community facilities which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council has engaged Sutton Kersh to assist in the valuation of Council Dwellings as at 31 March 2020.</p> <p>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note3.</p> <p>The valuation of properties valued by the valuer has resulted in a net decrease of £6.4m. Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 March 202 and concluded it was not material.</p> <p>As noted on page 7, the valuations are carried out as at 1 April although the Council Dwellings valuation reflects changes in value up to 31 March 2020.</p>	<p>We reviewed the detail of your assessment of the estimate, considering;</p> <ul style="list-style-type: none"> • the assessment of management's expert, your internal valuer and Sutton Kersh; • the assessment of auditor's expert, Gerald Eve; • the completeness and accuracy of underlying information used determine the valuation • the reasonableness of change in valuation including with market trend report provided by our auditor expert Gerald Eve; and • the adequacy of disclosure of the estimate in financial statements <p>The Council has completed a desk top review of council housing for 2019/20 which resulted in a net decrease of £6m.</p> <p>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 and found these to be reasonable.</p> <p>We have assessed the likelihood a material difference between the Council's estimated valuation of Operation Land and Buildings and Investment properties against national trends reported by Gerald Eve acting as the Auditors' Expert. We have concluded there is a potential overstatement of the Council's estimate of the value Investment Properties of £406k and a potential understatement of the estimate of the value of Operational Land and Buildings of £485k. This level difference will not affect our opinion.</p> <p>Our work in this area is subject to final review.</p>	

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 estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																								
Net pension liability – £53.418m	<p>The Council's net pension liability at 31 March 2020 is £52.418m (PY £55.9m) comprising the Lancashire Local Government and unfunded defined benefit pension scheme obligations (LGPS). 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.</p> <p>The Pension Fund Financial statements to 31 March 2021 included a material uncertainty in the valuation of the pension fund's property assets at 31 March 2020 as a result of Covid-19. The value of property assets attributable to the Councils is £2.27m and is material to the net liability. The Council has included disclosures on this issue in Note 3.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £10.28m net actuarial gain/loss during 2019/20.</p>	<p>We reviewed the detail of management's assessment of the estimate by :</p> <ul style="list-style-type: none"> • Making an assessment of Mercers as management's expert. • Assessing the actuary's roll forward approach, verifying that the latest available data relating to the valuation of the entire pension fund was used. • Considering the completeness and accuracy of the underlying information used to determine the estimate. • Assessing the information received from pension fund auditor • Undertaking analytical tests to assess the reasonableness of the Council's share of LGPS pension assets • Agreeing the transposition of information from the actuary's report to the financial statements and agreeing the resulting accounting entries. • Assessing the adequacy of disclosure of estimate in the financial statements • Using PwC as auditors' expert to assess actuary and assumptions made by actuary – see table to compare the assumptions used with those identified by the Auditor's expert as reasonable. <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.3%-2.4%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.1%</td> <td>2.1%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.6%</td> <td>3.35%-3.6%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>23.8yrs</td> <td>22.5-24.7yrs</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>26.8yrs</td> <td>25.9-27.7yrs</td> <td>●</td> </tr> </tbody> </table> <p>We have concluded that management's estimate is reasonable and based on appropriate assumptions in the context of the accounting framework and the Council's circumstances. As explained on page 8, we will include an Emphasis of matter paragraph in our opinion on the material valuation uncertainty disclosed in the pension fund financial statements.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.3%-2.4%	●	Pension increase rate	2.1%	2.1%	●	Salary growth	3.6%	3.35%-3.6%	●	Life expectancy – Males currently aged 45 / 65	23.8yrs	22.5-24.7yrs	●	Life expectancy – Females currently aged 45 / 65	26.8yrs	25.9-27.7yrs	●	
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.4%	2.3%-2.4%	●																								
Pension increase rate	2.1%	2.1%	●																								
Salary growth	3.6%	3.35%-3.6%	●																								
Life expectancy – Males currently aged 45 / 65	23.8yrs	22.5-24.7yrs	●																								
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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

In March 2020 we made formal enquiries of management about the arrangements for addressing the risk that the financial statements may be materially affected by; fraud, non-compliance with law or regulation, significant events outside the normal course of business, circumstances leading to significant impairment of non-current assets, existence of contingencies or unasserted claims against the Council, transactions involving related parties and use of inappropriate accounting policies and practises.

A response was not received until November 2020.

Commentary

These enquiries are an important aspect of planning stage of the audit, helping to identify potentially significant events, transactions, balances, and disclosures. Although we were able to identify other sources of information to complete our planning these enquiries serve to remind management of its responsibility or the financial statements and a prompt reply supports the preparation of the financial statements.

The delay had been caused by changes in management roles arising from the Sustainable Organisation Review Project

Auditor view

In the event of other changes to management responsibilities, the Council should ensure that there are proper handover arrangements in place that include managing current correspondence.

Management response

“Management note the comments of the auditor and the delay was largely driven by the urgent response required to the COVID pandemic. Clearly, we will look to address timeliness moving forward.”

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 material uncertainty disclosures

It has been a challenging year due to the Covid-19 pandemic and the impact of this has been has seen the Council divert staff to support the processing of some £20m of grants to businesses; closure of car parks with additional challenges of reopening services under new government guidelines; the need to free up capacity of teams in addition to normal responsibilities. The disruption has also meant that the Council has not been able to fully realize the savings it expected to generate in the year from the Sustainable Organization Review Program; these savings are expected to occur over a longer time frame. Despite this for 2020 the Council reported a small underspend against budget. Management anticipates that it may take a number of years before the Council's can fund its gross service expenditure without some use of its reserves. Given the relative strength of the Council's reserves, in our audit plan we determined that going concern and material uncertainties relating to going concern were not material risks.

Going concern commentary

Management's assessment process

The Council has a rolling three-year Medium Term Financial Forecast which is refreshed at every annual budget cycle. The MTFF is shaped by the Council Vision which sets out the corporate goals and levels of service. Budgeting is then completed on an incremental basis, funding is determined based on estimates of income, taxation and government grant, expenditure reflects agreed service levels an unavoidable cost pressures with growth items limited to predetermined levels. Budgeting is linked and to and supported by the Council's reserves and treasury management strategies which are subject to separate review and approval mechanisms.

Management has drawn on the evidence of these processes to prepare a statement explaining its assessment that there are no material uncertainties relating to going concern.

Work performed

We have reviewed performance against the 2019/20 Budget as reported in the Outturn and financial statement

We have reviewed the budget drafting process for both 2020/21 and the early proposals for 2022/23

We have reviewed the assumptions used in preparing the budget and MTFF and considered whether they are reasonable.

We reviewed management's statement on going concern and compared to the evidence of the MTFF and budget reports

Concluding comments

We propose to give an unmodified opinion in respect of going concern.

Note 5 to the financial statements identifies the Outbreak of Covid as occurring before the year end however it explains that the effects will be felt in subsequent financial periods. This is consistent with the evidence we have seen in 2020/21 budget reporting.

Auditor commentary

The budgeting process is incremental, the annual budget is built up from agreed or identified changes to the previous year's budget, however these changes to reflect updated information and assumptions. For example, income and expenditure are considered separately, total resource available to the Council is determined by considering trends in income, Government announcements about Council Tax and Business Rates and announcements about grant support. Expenditure is determined by looking at cost pressures and identifying unavoidable and unavoidable items. The gap is the starting point for determining the savings program and the use of reserves.

The same team responsible for preparing the budget, MTFF, Reserves and Treasury management Strategies and preparing the financial statement.

We did not identify any material uncertainty relating to going concern.

The assumptions used had an objective basis, for example; assumptions about Business Rates Income reflected the ending of the Lancashire Pooling and staff costs reflected agreed national pay awards, assumptions about the use of reserves were prudent.

We concluded that no additional disclosures were required.

Other matters for communication

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

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee .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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council which is included in the Audit and Governance Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to seven counterparties. This permission was granted and the requests were sent. All these requests were returned with positive confirmation.
Disclosures	<p>Our review found no material omissions in the financial statements however, as explained further in appendix A, the Council did not present financial instruments in the categories required by IFRS 9 and Chapter 7 of the CIPFA Code, and there were minimal disclosures relating to IFRS 15 We identified some unnecessary disclosures that could be removed with no loss of understanding for the reader of the financial statements and we identified several errors in disclosures. We reported these to management and amendments to the financial statements were made. These are detailed in appendix B.</p>
Audit evidence and explanations/significant difficulties	<p>All information and explanations requested from management has been provided. However, a number of practical problems have been encountered when undertaking the audit including:</p> <ul style="list-style-type: none"> • A disaggregated Fixed Asset Register (FAR) with poor links to the general ledger, • differences between the FAR and valuation reports, • no closing NBV's in the FAR making it harder to confirm valuation movements processed properly, • The general ledger total for capital additions could not be reconciled without including details of the disposal of assets held for sale, • problems obtaining working papers and analysis that were provided in the previous year, and • evidence provided to support testing without clear links to the transactions being tested. <p>We encountered delays in receiving working papers from the Council. For example, we set up a document sharing tool 'Inflo' on 7 September in readiness for the draft accounts. The Inflo logs of activity are visible to both the us and the Council's finance team and the structure follows that of the primary statements and notes and was ready to be populated with working papers as the accounts were prepared. We started to send detailed information requests on receipt of the draft financial statements, but some took time to be resolved. For example, we did not have a complete reconciliation of the fixed assets register until 9 December, and a request for evidence to support expenditure on additions to property, plant and equipment was raised on 17 November, but the evidence not received until the second week of January.</p> <p>We have kept in regular contact with the finance team throughout the audit, we have provided clarifications of information and data requests where required and guidance as to priority items. We have undertaken regular 'cleansing' of the Inflo system to ensure it remains up to date.</p>

Other responsibilities under the Code

Issue	Commentary
Other information	<p>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.</p> <p>No inconsistencies have been identified, we discussed with management whether further disclosure is required in the Annual Governance Statement to explain the impact of Covid-19 outbreak on Governance arrangements. We plan to issue an unmodified opinion in this respect – refer to appendix E</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • 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. <p>Our work is on-going in this area.</p>
Specified procedures for Whole of Government Accounts	<p>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.</p> <p>Detailed work is not required at West Lancashire Borough Council because the Council does not exceed the threshold.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of West Lancashire Borough Council in the audit report, as detailed in Appendix E.</p>

Value for Money

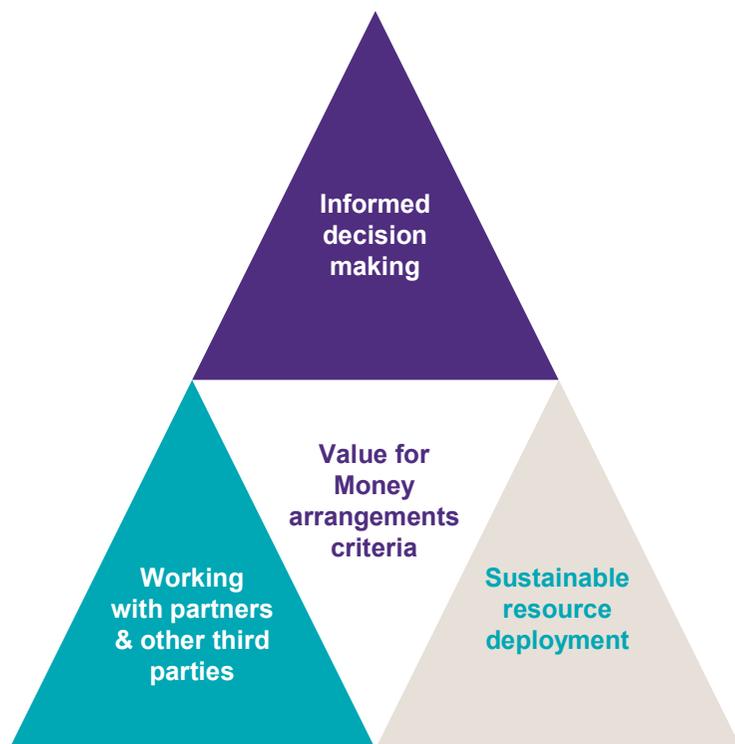
Background to our VFM approach

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

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

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

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



Risk assessment

We carried out an initial risk assessment in March 2020 and identified financial sustainability as a 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 May 2020

Our risk assessment is a dynamic process and we have had regard to new information which emerged since we issued our Audit Plan:

The significant risks identified since we issued the Audit Plan were

- the delay in publishing draft financial statements,
- and the changes to the senior management team as a result of the SORP changes.

To assess the impact of these risks we reviewed the arrangements the Council had in place to ensure business continuity and the reporting processes that have been followed to monitor the impact of Covid-19. Further details are on page 18 to 20.

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:

- Delivery against financial budgets
- Objectivity of the approach to budgeting and use of reasonable and up to date assumptions
- The planned use of reserves and SORP savings
- Effectiveness of implementation of Business Continuity Plans despite changes in senior management
- Appropriateness risk management and reporting during the Covid Outbreak
- Timeliness of Statutory Financial reporting and the Council's capacity to support the audit.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 18 to 20.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied except for the matter we identified in respect of Statutory Financial Reporting and its impact on informed decision making, the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We therefore propose to give a qualified 'except for' conclusion.

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

Recommendations for improvement

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

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

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your value for money 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.

Value for Money

Key findings

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

Significant risk	Findings	Conclusion
<p>Financial Sustainability</p> <p>At the time of our risk assessment the Council had identified that there were budget gaps between the spending required to maintain services at the current levels and the resources available. The gap was to be bridged by savings from the SORP and use of the reserves.</p>	<p>We reviewed:</p> <ul style="list-style-type: none"> • Outturn reports • Budget plans for 2021 and budget highlights for 2022 • The Council's risk register • The Council's assessment of risks to the going concern concept <p>The Council achieved a favourable budget variance of £78k on the general fund and £737k on the HRA, compared to a budgeted £300k.</p> <p>The original 2021 budget identified a budget gap of £1.77m to be met in part by reserves and in part by SORP savings. In December 2020 Council received a projected outturn report that identified a further £563k of expenditure that need to be met from reserves making the total call on reserves £1.34m. The HRA was expected to breakeven as planned.</p> <p>2020/21 has been impacted by Covid and monitoring up to November shows that by 31 March 2021 the Council will have incurred a 'hit' of £3m most of which will be met by Government support. Initial budget planning to 2023/24 shows there will be continued deficits as the SORP savings are delayed by the impact of the pandemic but thereafter the Council returns to long term balanced budget thereafter.</p> <p>At 31 March 2020 the Council had £16.5m of general fund reserves. £15.5m had been earmarked but this includes £5.6m for Corporate projects including budget gaps.</p> <p>Our review of the budget reports showed that they were based on reasonable assumptions reflecting up to date information.</p>	<p>Based on:</p> <ul style="list-style-type: none"> • In year management of the outturn position • the long-term savings plans, • the prudent use of relevant assumptions in preparing budgets, and • the availability of reserves. <p>We conclude that the Council has adequate arrangements to support financial sustainability.</p> <p>Management response</p> <p>"An updated MTFF is planned to be completed over summer 2021 this will provide an updated financial picture reflecting the impact of the pandemic and incorporating progress against SORP savings targets. The outcome of this exercise will inform management of the future requirements that will need to be addressed in order to ensure financial viability."</p>

Value for Money

Key findings

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

Significant risk	Findings	Conclusion
<p>Delay to the draft financial statements</p> <p>Reliable and timely financial reporting is required supporting delivery of strategic objectives is one of the NAO criteria for having informed decision making. Missing the statutory date from publishing draft accounts is indicative of weakness in those arrangements.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Reviewed the draft financial statements and the supporting working papers • Reviewed the preparation presentation of in-year financial reports to Cabinet and Council during 2019 and 2020 • Reviewed the Council's Risk register <p>During the months October, November and December, the Council makes mid year reports to members and cabinet on HRA, GFA and Treasure Management budgets. It has continued this practise in both 2019 and 2020 despite the challenges of lockdown and the additional work that implementing the Governments Covid support program has presented. However, the 2020 reports are at a higher level and lack the same detail as the equivalent reports presented in 2019. Throughout 2020 management has provided regular briefings to members that include the financial impact of Covid-19 on the Council.</p> <p>A number of practical problems have been encountered when undertaking the audit including:</p> <ul style="list-style-type: none"> • A disaggregated Fixed Asset Register (FAR) with poor links to the general ledger, • differences between the FAR and valuation reports, • no closing NBV's in the FAR making it harder to confirm valuation movements processed properly, • problems obtaining working papers and analysis that were provided in the previous year, and • evidence provided to support testing without clear links to the transactions being tested. <p>Regular progress meetings were held throughout the audit but, due to officer workload commitments, the meeting scheduled for 18 December had to be postponed until 22 December. At that point audit evidence was still outstanding in several key areas, we advised the Council that this information was needed for 4 January 2021 if the audit was to be completed by 29 January. Given the then restricted period in which to respond, and the ongoing pressures of the pandemic on officer workload, the Council was unable to provide the information within that time frame.</p>	<p>Diverting finance staff to support Covid relief operations, the extra financial monitoring necessary as a result of Covid and the need to maintain normal Council business has overburdened the finance team. Therefore, the Council's arrangements for ensuring resilience within the finance function were not sufficient to support statutory financial reporting during the pandemic.</p> <p>Management response</p> <p>“As a result of the pandemic the year-end deadline was extended by regulators to the end of August 2020. It is accepted that the completion of the draft accounts was after that date. The consequence of the delay meant that the timing of arguably the two most fundamental pieces of work that the Finance team complete, year end and budget setting, clashed which resulted in workloads conflicting. Processes around the FAR will be reviewed in order to improve documentation and reconciliation.”</p>

Value for Money

Key findings

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

Significant risk	Findings	Conclusion
<p>Changes to management structure.</p> <p>Planning, organising and developing the workforce effectively to deliver strategic priorities is necessary to ensure sustain resource deployment. Changes to senior management during an unprecedented health crisis places added strains on those arrangements.</p>	<p>We have reviewed:</p> <ul style="list-style-type: none"> • Business Continuity Plans (BCPs) for a selection of services • Held discussion with management • Reviewed the Corporate Risk Register • Reviewed the Covid Monitoring Briefings <p>Service BCPs are in place to ensure the services continue to function effectively. These have been subject to recent update, some since the outbreak of Covid19 where it has been necessary to reflect Covid-Secure requirements. They have also been subject to test exercises, including the possibility of pandemic flu. These plans include detailed explanations of the roles of key contacts and responsible officers and have been implemented successfully in the main.</p> <p>Covid monitoring reports have rational structure, outlining national developments, specifying the impact in West Lancashire, outlining any multiagency response, describing operational and financial impacts and setting out next steps. Corporate Risk Register includes risks relating to Covid and to SORP implementation, gives these a suitable risk rating and details mitigations and controls.</p> <p>Our discussion with management revealed that as part of the Covid response, there have been weekly briefings, including finance issues for both the officer led Emergency Group and to Members;- all members have received a 2-monthly briefing on all aspects of Council work. Work is continuing on implementation of the SORP.</p>	<p>The implementation of the Business Continuity plans and the related Governance and operational changes, have ensured frontline services have continued and oversight and governance, with the exception of statutory financial reporting, has remained in place. The change in management structure has not had an adverse impact on arrangement to secure value for money.</p> <p>Management response</p> <p>“The comments are noted, nothing further to add.”</p>

Other statutory powers and duties -

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

Issue	Commentary
Public Interest report/Written recommendations/Application to the court for unlawful item/advisory notice/application for judicial review	None anticipated

Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to [current date], as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	2019 £12,000 2020 £13,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £25,000 in comparison to the total provisional fee for the audit of £87,500 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. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	2019 £1,750 2020 £2,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £3,750 in comparison to total provisional fee for the audit of £87,500 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. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance Committee. None of the services provided are subject to contingent fees.

Action plan

We have identified [X] of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management, and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
 High	<p>Delayed publishing of the Draft Financial Statements</p> <p>The draft financial statements were not published by the extended deadline of 31 August and together with weaknesses in the Council's capacity to support the audit, has led to the statutory audit deadline of 30 November not being achieved.</p>	<p>The Council should review its arrangements for ensuring resilience within the finance team and its capacity to support the audit process.</p> <p>Management response</p> <p>"The capacity of the team is of continual assessment, clearly the exceptional circumstances of this year have resulted in extra workloads. Also, the clash of year end audit and budget setting workloads has resulted in a compounding affect which does not normally occur during the course of a financial year."</p>
 Medium	<p>Fixed Asset Register and General Ledger</p> <p>We encountered a number of problems in agreeing the figures for Property Plant and Equipment disclosed in the financial statements to the key underlying records, the general ledger and the fixed assets register (FAR) including:</p> <ul style="list-style-type: none"> • poor links to the general ledger, • differences between the FAR and valuation reports, • no closing NBV's in the FAR making it harder to confirm valuation movements processed properly • the general ledger total for capital additions could not be reconciled without including details of the disposal of assets held for sale, and • the general ledger included a significant number of credit items for the reversal of prior year accruals which were not self reversing. 	<p>The Council should consider the adequacy of its Fixed Asset Register as a tool for managing its property, plant and equipment and supporting adequate financial reporting.</p> <p>Management response</p> <p>"A review of the arrangements will be conducted to improve reporting and reconciliation issues."</p>

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 [insert client name] Council's 2018/19 financial statements, which resulted in [x] recommendations being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented some of our recommendations and have responded to positively to others where not fully implemented

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>SORP Implementation- Statutory Role</p> <p>One of the outcomes from SORP review is to create a leaner management structure in order to make efficiency savings create a financial sustainable organisation.</p> <p>The Council needs to ensure that the designated officers have sufficient status and capacity to properly fulfil the statutory duties of s151 officer and monitoring officer in addition to any other responsibilities.</p>	<p>The New Structure was approved by members in July 2019 and implemented through a recruitment process that was completed in November. All statutory Officers are in place and work continues to ensure the roles are embedded in the Council.</p>

Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Council's 2018/19 financial statements, which resulted in [x] recommendations being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented some of our recommendations and have responded to positively to others where not fully implemented.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>SORP implementation - investment strategy</p> <p>As part of the SORP review, the Council is considering making longer term cash investments which may increase liquidity risk. In addition, the Council is considering expanding its investments in commercial property, whose fair value tends to fluctuate more due to changes in market prices.</p>	<p>We recommended that the Council consider statutory guidance on investments and if longer term deposits are to be made, consider the impact on liquidity. We recommended that for investment in commercial property due diligence work be undertaken together with risk management before making investments.</p> <p>The Council responded that a paper covering these matters will be taken to Council in October 2019.</p> <p>In October members received the Treasury Management and Investment Report which included the new approach to investments. It noted that potential longer term cash investments were being investigated with the support specialist Treasury Management advisors and further reports would come to members in due course. To manage the Commercial Property funds, the terms of the Strategic Asset Purchasing Committee had been updated, raising the investment ceiling to £3m but that this would be within the frame- work of a new Commercial Property Strategy.</p> <p>The impact of significant stress in the retail property sector and the advent of Covid-19 meant this strategy was not presented until July 2020, however it did reflect current circumstances. It has been presented as a medium-term strategy with an operating horizon of up to 5 years. Three strategic objectives were established</p> <ul style="list-style-type: none"> • To contribute to economic recovery in West Lancashire by supporting growth of existing and new businesses. • To generate revenue to support the general fund. • To minimize the risk of holding commercial property through diversification <p>To ensure diversification the Strategy sets maximum proportions for the type of investment that can held at 1/3 Industrial, 1/3 Office and 1/3 mixed retail and other use. Other criteria are that average lots are to be between £1m and £5m and no more than 20% of total rental revenue was to come from one tenant. The strategy confirmed that investments must have a strategic fit with wider Council plans and set out criteria for due diligence work.</p>

Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Council's 2018/19 financial statements, which resulted in [x] recommendations being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented some of our recommendations and have responded to positively to others where not fully implemented.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Draft statement of accounts compliance with the Code</p> <p>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 will need to ensure that it complies fully with disclosure requirements.</p>	<p>We recommended the Council reviews this in 2019/20 and ensures it complies with all disclosure requirements set out in the Code.</p> <p>The draft financial statements identified all the financial instruments falling within the remit of IFRS 9 but did not disclose them in categories described by the standard. Amendments to the disclosure were discussed and agreed with management.</p>
✓	<p>Super user access to financial ledger</p> <p>The Council has three system administrators for the financial systems who can make changes to the parameters of the systems and can also post financial transactions.</p> <p>There is an approval process in place and the Council can obtain details on individual items, however there is a risk that the system could be open to manipulation.</p>	<p>We recommended the Council reviews its user access and ensures sufficient processes are in place to provide assurance over separation of access and role.</p> <p>The Council had a large officer reorganisation and last year the systems administrator roles were reviewed, revised and limited to just two officers within the finance team. A cleansing exercise was undertaken to remove access to the general ledger from officers whose profile was no longer active and all other access rights were reviewed for relevance. Plans are in place for an Internal Audit review of the IT control measures.</p>

Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Council's 2018/19 financial statements, which resulted in [x] recommendations being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented some of our recommendations and have responded to positively to others where not fully implemented.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Related Party Transactions</p> <p>Members are required to keep the register of their interests up to date and the register for each member is included on Council's website. Offices of the council are reminded annually of the requirement to declare any interests.</p> <p>Members and senior officers are not required to make annual year end declarations in relation to their interests.</p>	<p>We recommended that members and officers make annual year end declarations of interests they hold including nil declarations.</p> <p>The recommendation was rejected on the basis that value such a process would add would not justify the additional work required.</p> <p>It remains our view that this is good practice which would reduce risk to the Council.</p>
✓	<p>Investment Property</p> <p>The Council's has valued Investment Properties as at 1 April 2018. The Code states that "value of investment property shall reflect market conditions at the end of reporting period. The accounting policy and practice is not in line with Code requirements.</p>	<p>We recommended the policy and practice be brought in line with the Code. We highlighted that we thought the potential for misstatement was not material.</p> <p>Management did not accept our finding, pointing out that our assessment of the likely change in value was based on index data for the whole of the North West and specific to the Borough.</p> <p>In preparing the valuations for inclusion in the financial statements, the Council has valued its investment properties at 31 March 2020.</p>
✓	<p>Valuation of land and buildings, and Council Houses</p> <p>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.</p>	<p>We recommended that the Council undertakes valuations as at 31 March</p> <p>This was recommendation was rejected because we had not used professional values to determine the potential degree of error in the valuation and because management considered this would not allow sufficient time for the preparation of the financial statements by the regulatory deadline.</p> <p>In preparing the valuations for inclusion in the financial statements, the Council has valued its general fund assets and council dwellings as 31 March 2020.</p>

Audit adjustments

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

Impact of adjusted misstatements

We identified no adjustments to the primary financial statements.

Misclassification and disclosure changes

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

Disclosure misstatement	Detail	Auditor recommendations	Adjusted?
Housing revenue account net cost of service	The figure in the Housing Revenue Account for net cost of services does not cast.	The figure reported in the Housing revenue Account had been miss cast and was reported as £4,553k however the correct figure is £4,448k. The correct is included in the Comprehensive Income and Expenditure Accounts. Correct HRA Management response HRA corrected (TBC)	TBC
Note 1 Accounting Policies	Note 1 Accounting policies included descriptions of the accounting policies for Heritage Assets (1.xi) and Intangible Assets (1.xii). Neither of these balances are material to the financial statements.	The Code only requires disclosure of the accounting policies for material items within the financial statements, these disclosures can be removed. Management response Financial Statements amended (TBC)	TBC
Note 30a Officer Remuneration	Note 30 The analysis of the number of employees by salary band overstated by 1 the total number in the band £60,000 to 64,999	In our audit plan we identified this as an especially sensitive disclosure therefore the Council should correct the band analysis. Management response Financial Statements amended (TBC)	TBC
Note 31 External Audit Costs	Note 31 disclosed fees invoiced and accrued during the financial year and not fees relating to the financial year. to the financial year.	To better inform the readers of the financial statements the Council should amend note 31 to show agreed audit fee for the current year, £40k, additional fees for the prior for the prior year £4.5k and certification fees £14k. Management response Financial Statements amended (TBC)	TBC

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.

Disclosure misstatement	Detail	Auditor recommendations	Adjusted?
Financial Instruments	The draft financial statements note 16 identified all the financial instruments falling within the remit of IFRS 9 but did not disclose them in categories described by the standard.	To fully comply with IFRS 9 and the Code, the Council should amend financial instruments note, note 16. Management response Financial Statements amended (TBC)	TBC
Financial Instruments	Description of the risks for holding financial instruments were disclosed in note 16 were as the values of financial instruments were disclosed in note 39.	To aid the reader of the financial statements the Council should move the detail disclosed in note 39 to note 16 Management response Financial Statements amended (TBC)	TBC
Financial instruments - Fair value notes	Note 16 financial instruments includes a description of the fair value methodology applied including that applied to the valuation of Investment Properties disclosed in note 13	To aid the reader of the financial statements the Council should include the relevant fair value disclosures in note 13 Management response Financial Statements amended (TBC)	TBC
Comprehensive Income and Expenditure Statement (CIES) and Expenditure and Funding Analysis (EFA) Note 27a comparative figures	The comparative figures in the CIES and the EFA have been re-stated to reflect changes in the Corporate Structure	Where comparative figures have been re-stated as a result of a change in accounting practice the Code 3.3.4.2 c) requires disclosure of the adjustment to each line item affected. The accounts should show previously reported figures so that readers can understand the effect of the change. Management response Financial Statements amended (TBC)	TBC
Note 2 Critical Judgements	Note 2 Critical Judgements included reference to the uncertainty of future government funding that was not sufficiently uncertain to determine what the effect might be.	This uncertainty has not required any judgement to be made about the application of accounting standards and therefore does not need to be included. Management response Financial Statements amended (TBC)	TBC

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.

Disclosure misstatement	Detail	Auditor recommendations	Adjusted?
Financial Instruments	The draft financial statements note 16 states that the PWLB loan portfolio has a fair value of £110.3m whereas the disclosure in note 39 gives the current fair value as £105.1m.	<p>The figure reported in note 16 is the prior year figure and the figure reported in note 34 is the current year figure. Amend note 16.</p> <p>Management response</p> <p>Financial Statements amended (TBC)</p>	TBC
IFRS 15 Revenue from contract with customers (Service Users)	The Financial statements do not explain the extent to which IFRS 15 applies.	<p>As a minimum the financial statements should explain:</p> <ul style="list-style-type: none"> • the difference between contractual and statutory income and the amount of contractual income, • the basis for recognising statutory income and the performance obligations relating thereto, • and the extent to which provision has been made for losses on contract receivables (bad debts). <p>Management response</p> <p>Financial Statements amended (TBC)</p>	TBC

Appendix C

Audit adjustments

Impact of unadjusted misstatements

We are required to provide details of adjustments identified during the 2019/20 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 identified as unadjusted misstatements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<p>The Council has carried out a full review of the valuation of investment properties 2019-20. These are valued at 1 April 2019. The Code states that "The fair value of investment property shall reflect conditions at the end of reporting period" that is, 31 March 2019.</p> <p>We have used indices to assess the reasonableness of managements estimate that suggested on average the council's investment properties were overvalued by around £406k.</p>	-406	-406	-406	Matter immaterial to the results of the Council and its financial position at the year-end.
Overall impact	-£406	-£406	-£406	

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<p>The Council has not revalued operational land buildings but has used local data to determine whether the estimate of value at the year-end is materiality correct</p> <p>As part of our work, we have used indices to assess the reasonableness of managements estimate that suggested on average the council's operational land buildings are undervalued by £485k.</p>	485	485	485	Matter immaterial to the results of the Council and its financial position at the year-end.
Overall impact	£485	£485	£485	

Audit adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
The Council has carried out a full review of the valuation of investment properties 2018-19. These are valued at 1 April 2018. The Code states that "The fair value of investment property shall reflect conditions at the end of reporting period" that is, 31 March 2019. As part of our work we used indices that suggested on average the council's investment properties were under valued by around £1.246m.	1,246	1,246	1,246	Management did not accept the basis of our findings and the potential misstatement was not material. This issue falls away because of the annual revaluation of investment, see above.
Overall impact	£1,246	£1,246	£1,246	

Appendix D

Fees

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

Audit fees	Planned fee	Proposed Final fee
Council Audit	40,384	87,500
Total audit fees (excluding VAT)	£40,384	£87,500

The final fee is subject to approval PSAA Ltd.

In our original audit plan, we advised of an increase in fees due to the impact of increased expectations on the work of the auditor. At that time, we were expecting delivery of the financial statements to continue as per the statutory time timetable. The five-week delay meant significant re-scheduling of our resources and replacing planned resource with higher grade staff. We had originally planned to complete the audit by 30 November, however the practical problems encountered on the audit, and listed on page 14, have caused significant additional work and oversight. As the audit completion date has been put back, it has been necessary to re-visit and refresh on several occasions, the audit risk assessment, the going concern assessment, and the value for money conclusion. To this we have had the added difficulties of remote auditing as set out on page 6. Consequently, we have incurred significant additional costs.

The fees reconcile to the financial statements. fees per financial statements £58,364

- Additional fee re 2019 -4,500
- Certification fees 2019 -13,750
- total fees per above £ 40,384

Non-audit fees for other services 2020	Proposed fee	Final fee
Audit Related Services. Grant Claims	15,000	15,000
Total non- audit fees (excluding VAT)	£15,000	£15,000

Draft Audit opinion

We anticipate we will provide the Council with an unmodified audit report which includes an emphasis of matter regarding material valuation uncertainty for property assets.

Independent auditor's report to the members of West Lancashire Borough Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of West Lancashire Borough Council (the 'Authority') for the year ended 31 March 2020 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement . The notes to the financial statements include the EFA, Notes to the Core Statements, Policies and Judgements, Notes to the Housing Revenue Account Statement and Notes to the Collection Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 .

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

The impact of macro-economic uncertainties on our audit.

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Head of Finance, Procurement and Commercial Property and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern.

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Head of Finance, Procurement and Commercial Property's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance, Procurement and Commercial Property has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Draft Audit opinion

In our evaluation of the Head of Finance, Procurement and Commercial Property's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments.

We draw attention to Note 3 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in note 3 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's property valuation reports. Our opinion is not modified in respect of this matter .

Other information

The Head of Finance, Procurement and Commercial Property is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, and the Annual Governance Statement other than the financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

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- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Head of Finance, Procurement and Commercial Property and Those Charged with Governance for the financial statements.

As explained more fully in the Statement of Responsibilities set out on page 17, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Finance, Procurement and Commercial Property. The Head of Finance, Procurement and Commercial Property is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Head of Finance, Procurement and Commercial Property determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Finance, Procurement and Commercial Property is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Qualified Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, except for the effects of the matters described in the basis for qualified conclusion section of our report, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Basis for qualified conclusion

Our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources identified the following matters:

- Like many other Councils, West Lancashire BC has had to divert finance staff to Covid-19 support related activities, notably the receiving, processing and distribution of central government business grants and other support packages.

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- The Council took advantage of the extended reporting deadlines and presented its draft General Fund and Housing Revenue Account Outturn Reports to Cabinet on 22 July 2020. No date was set for the presentation of the draft financial statements.
- Under the amended Accounts and Audit Regulations, the latest date for publishing draft financial statements was 31 August, draft financial statements were not made available to the audit team until 2 October and publication confirmed on 5 October.
- Difficulties have been encountered in obtaining prompt replies to audit queries and evidence to support audit testing. Target dates for some key audit evidence have also been missed and it became clear the demands on Council finance staff meant the Council could not support the audit in a manner that would enable the Audited Accounts date of 30 November 2020 to be met while meeting routine and Covid related workloads.

These matters identify weaknesses in the Council's arrangements for ensuring resilience and capacity within the finance function.

These matters are evidence of weaknesses in proper arrangements for informed decision making, through reliable and timely financial reporting that supports the delivery of strategic priorities.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively. We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the West Lancashire Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Jon Roberts, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

[Date]



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