



# Informing the audit risk assessment for West Lancashire Borough Council 2020/21

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between West Lancashire Borough Council's external auditors and West Lancashire Borough Council's Audit & Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit & Governance Committee under auditing standards.

## Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit & Governance Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit & Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit & Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit & Governance Committee and supports the Audit & Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from West Lancashire Borough Council's management. The Audit & Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

## General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?</p>	<p>The key factor that has impacted upon the Council in the past year has been the Covid Pandemic. This has had a significant impact upon the organisation both in terms of operational capacity to deliver the various grant funding streams to local businesses, and on the income the Council receives for areas such as car parking, planning, leisure etc. The organisation has had to implement new ways of working including holding all Council meetings remotely and staff have worked from home in the main with the exception of front line staff such as Environmental Services.</p> <p>The Tawd Valley Development Company has reached financial materiality to warrant reporting group accounts . The Company's Business Plan agreed by Council shows a forecast profit of £2.6m over the next 5 years.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by West Lancashire Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>Yes. No significant changes were required.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>The Council only uses simple Financial Instruments, and does not have any derivatives.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business?</p>	<p>The Council has received grants from Government for a variety of support. Some of these grants have been available to offset the costs incurred in delivery. Similarly we have received income to offset the losses for sales, fees and charges income for 2021 and up to the end of June 2021. Grant returns have been submitted to Govt where required.</p>

## General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No.
6. Are you aware of any guarantee contracts?	No.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None other than those disclosed under Contingent Assets and Liabilities.
8. Other than in house solicitors, can you provide details of those solicitors utilised by West Lancashire Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	N/A.

## General Enquiries of Management

Question	Management response
9. Have any of the West Lancashire Borough Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	Not aware of anything. There have not been any notifications or findings of fraud, non compliance with laws and regulations or uncorrected misstatements that would affect the financial statements communicated by WLBC service providers.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Red Quadrant – review of Fees and Charges.



# Fraud

## Issue

### Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit & Governance Committee and management. Management, with the oversight of the Audit & Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit & Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As West Lancashire Borough Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit & Governance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit & Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit & Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from West Lancashire Borough Council's management.

## Fraud risk assessment

Question	Management response
<p>1. Have West Lancashire Borough Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>This matter is considered through the process of the production of the Annual Governance Statement. Consideration would also be given during the year if any significant issues arise.</p> <p>Internal audit planned coverage, and external audit work; Accountants report issues identified through monitoring;</p> <p>Head of Service certificates are produced for the AGS.</p> <p>All Committee Reports include a "Risk" section. The Risk Register highlights key organisational risks and significant service risks are picked up within Service Risk Registers.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Revenues and Benefits fraud are a key area. Internal Audit undertake annual audit reviews of key financial systems.</p> <p>Payroll and employee expenses.</p> <p>Housing related activity e.g. Right to Buy Scheme and contract negotiation.</p> <p>High on the risk agenda for most councils and relevant to WLBC, as per the CIPFA fraud and corruption tracker 2020 are Procurement, Single person discount, business rates , Housing and tenancy and Council Tax Reduction (CTR). These areas mirror the concerns of Internal Audit and these are built into its Internal Audit Annual Plan. The impact of Covid-19 and grants available will also be high risk.</p>

## Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within West Lancashire Borough Council as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No reported incidences of alleged fraud, errors or other irregularities have been reported since 31/05/2021. Internal Audit continue to undertake work in high risk areas and report to CMT and Audit and Governance Committee accordingly.</p> <p>Internal Audit Manager's Annual report to Audit and Governance Committee details work undertaken in relation to fraud.</p> <p>Internal Audit Progress reports are provided to the Corporate Management Team and the Audit and Governance Committee on a quarterly basis. Any issues relating to fraud or Internal Audit Investigations would be incorporated as necessary.</p> <p>Look at best practice and policies are up to date.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within West Lancashire Borough Council where fraud is more likely to occur?</p>	<p>No specific fraud risks identified</p> <p>It should be noted that when conducting any Internal Audit Review the auditor will consider the areas at risk of fraudulent activity and test accordingly.</p> <p>Internal Audit work has and continues to focus on some of the key areas of risk published in the CIPFA Fraud and Corruption Tracker 2020, such as Single Person Discount, Procurement Fraud, Housing and Tenancy Fraud and Business Rates.</p>
<p>5. What processes do West Lancashire Borough Council have in place to identify and respond to risks of fraud?</p>	<p>A whistleblowing code</p> <ul style="list-style-type: none"> <li>- An Officer Code of Conduct</li> <li>- An Anti Fraud, Corruption and Bribery Policy</li> </ul>

## Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for West Lancashire Borough Council, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>As part of the Internal Audit function, appropriate review of key controls and testing, using a variety of sampling techniques, it utilised. Results of any weaknesses or risk of fraud etc are formally reported to management for remedial action to be taken.</p> <p>All Internal Audit findings are reported in summary to the Audit and Governance Committee.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>Not that we are aware of.</p>

## Fraud risk assessment

Question	Management response
<p>8. How do West Lancashire Borough Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>WLBC has a code of conduct in place for its officers and Core Behavioural Standards that all Officer must comply with as part of their contract of employment. Adherence to these behaviours are reinforced at Officer Annual Appraisals. Staff are also reminded on occasion of the need to comply with the Officers Code of Conduct.</p> <p>The council has a Whistleblowing code in place and staff are encouraged to use this policy to make known any issues or concerns they would like to raise. There are key officers of the council named as contacts to refer such concerns and these are documented in the Whistleblowing Code.</p> <p>There have not been any significant issued reported to date.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Officers with responsibility for the processing of transactions, procuring goods via contracts and key roles within the councils financial management system</p> <p>An appropriate authorisation matrix is in place to ensure there are appropriate levels of authorisation is in place and separation of duties applied for Council expenditure. This is currently controlled by Internal Audit and the Section 151 Officer.</p> <p>There are key controls in the financial management system to minimise any management control override.</p> <p>Internal Audit reviews the council key financial systems on an annual basis and reports any potential areas of concern or weakness to management, making recommendations and monitoring implementation of additional internal controls.</p>

## Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit &amp; Governance Committee?</p> <p>How does the Audit &amp; Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Internal Audit Manager provides the Audit and Governance Committee with a progress report at each meeting and will give details of the audit work undertaken and the outcomes including any risks of fraud or breaches of internal control. The Audit and Governance committee members scrutinise this report and seek further explanation where necessary.</p> <p>The Internal Audit Annual Report also mentions about Fraud work undertaken during the financial year and any outcomes.</p> <p>An Internal Audit Recommendation Escalation Procedure is in place and gives members of the Audit and Governance Committee the opportunity to invite officers to explain any breaches of internal controls or potential risks of fraud and any failure to implement Internal Audit recommendations. Audit and Governance Members have asked that they be allowed to invite officers to attend the committee meetings to enable in depth questioning and scrutiny.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No official whistle blows have been received by key contacts named in the Whistleblowing Code.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>None received by Internal Audit Manager.</p>

## Law and regulations

### Issue

#### **Matters in relation to laws and regulations**

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit & Governance Committee, is responsible for ensuring that West Lancashire Borough Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit & Governance Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

## Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does West Lancashire Borough Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>There are a range of measures in place including:</p> <p>Compliance with laws and regulations is reviewed by the Council's statutory monitoring officer</p> <p>Officers are professionally qualified where relevant and will monitor new development and take action to ensure compliance with new laws and regulations</p> <p>Whistleblowing code</p> <p>Officer code of conduct</p> <p>Annual review of the Council's compliance with CIPFA Delivery Good Governance in Local Government Framework 2016</p> <p>Review of Council Policies to ensure that they are current.</p> <p>Head of Service certificates produced as part of the Annual Governance Statement process</p> <p>Not aware of any regulatory changes that will impact on financial statements for the period.</p>
<p>2. How is the Audit &amp; Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Internal Audit Service undertake an annual review of the councils compliance with CIPFA Delivery Good Governance in Local Government Framework 2016 which informs the Annual Governance Statement</p>

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## Impact of laws and regulations

Question	Management response
5. What arrangements does West Lancashire Borough Council have in place to identify, evaluate and account for litigation or claims?	Potential claims and their impact are identified and evaluated through discussions with the Legal and Democratic Services Manager (the Council's monitoring officer).
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.

# Related Parties

## Issue

### Matters in relation to Related Parties

West Lancashire Borough Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by West Lancashire Borough Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in West Lancashire Borough Council's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>• the nature of the relationship between these related parties and West Lancashire Borough Council</li> <li>• whether West Lancashire Borough Council has entered into or plans to enter into any transactions with these related parties</li> <li>• the type and purpose of these transactions</li> </ul>	<p>This is covered by the related parties note in the accounts and its supporting working paper.</p>
<p>2. What controls does West Lancashire Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Review by the accountancy team in completing the related parties note in the accounts Members and senior management are required to declare interests. TVDL subject to Officer and Member scrutiny.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Standard controls for payments made/received TVDL subject to Officer and member scrutiny</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Record of Decisions are undertaken and signed off at each stage of approval by relevant senior officers and where appropriate the Portfolio Holder.</p> <p>For Contracts there is the Contract Exemption process which has to be agreed by Procurement Manager and authorised by the Chief Operating Officer. Details of the exemption has to be reported to members.</p>

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit & Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit & Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

## Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>There are a range of measures in place to achieve this including:</p> <p>Accountancy staff are qualified and undertake CPD each year Publications, email bulletins and courses from CIPFA, the LGA etc The Council's Legal Services team monitor and review new laws and regulations being issued Discussion of issues of common interest at the Lancashire Chief Finance Officers meetings which take place several times a year and can inform estimates.</p>
<p>2. How does the Council's risk management process identify and addresses risks relating to accounting estimates?</p>	<p>Service risk registers are reported to Heads of Service on a regular basis, so that they can assess any financial implications as part of their budget management responsibilities. The accountants also discuss areas of risk with budget managers on an ongoing basis.</p>
<p>3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>See separate note on accounting estimates</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>See separate note on accounting estimates</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Accountancy staff are qualified and undertake CPD each year Publications, email bulletins and courses from CIPFA, the LGA etc. provide guidance. Liaison with external auditors over financial matters.
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	See separate note on accounting estimates
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	See separate note on accounting estimates
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	See separate note on accounting estimates

## Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	See separate note on accounting estimates
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	See separate note on accounting estimates
12. How is the Audit & Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	See separate note on accounting estimates

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Other Land and buildings valuations	See Accounting Estimates WP submitted separately.				
Council dwelling valuations	See Accounting Estimates WP submitted separately.				
Investment property valuations	See Accounting Estimates WP submitted separately.				
Depreciation	See Accounting Estimates WP submitted separately.				



## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	See Accounting Estimates WP submitted separately.				
Provision for impairments (bad debt provision)	See Accounting Estimates WP submitted separately.				



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