

The Audit Findings for St Helens Metropolitan Borough Council

Year ended 31 March 2019

July 2019



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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 St Helens Metropolitan Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<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 and the Council's 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 Statement of Accounts, 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 carried out on site during June and July. Our findings are summarised on the following pages.</p> <p>Management received updated pension calculations in July 2019 as a result of the pensions age discrimination ruling (the McCloud judgement). The increase of £10,995k net pension liability is material to the Council. We have reflected the additional net pension liability as an adjusted misstatement. Further detail on this issue is included on page 11.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Governance Committee meeting on 29 July 2019. These outstanding items include:</p> <ul style="list-style-type: none">- completion of sample testing in a number of areas- clearing queries, particularly on pensions testing to actuary reports and property, plant and equipment (PPE) queries- obtaining and reviewing the management representation letter- review of the final set of financial statements; and- updating our post balance sheet events review, to the date of signing the opinion. <p>We have completed our testing as at the 30th July 2019 with no issues identified.</p> <p>Audit adjustments are detailed in Appendix A.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p>
Value for Money arrangements	<p>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>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that St Helens Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised in Section 3.</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	<p>We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.</p>	

Summary

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

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

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 following the Audit and Governance Committee meeting on 29 July 2019. These outstanding items include:

- completion of sample testing in a number of areas
- clearing queries, particularly on pensions and property, plant and equipment (PPE) testing
- receipt of management representation letter
- review of the final set of financial statements; and
- updating our post balance sheet events review, to the date of signing the opinion.

We have completed our testing as at the 30th July 2019 with no issues identified.

Our approach to materiality

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

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

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	8,380,000	Considered to be the level above which users of the accounts would wish to be aware of misstatements, in the context of overall expenditure. Based on 2% of 2017/18 gross expenditure on cost of services.
Performance materiality	6,285,000	Assessed as 75% of Financial Statement materiality.
Trivial matters	419,000	ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. Standard level of 5% of materiality used.
Materiality senior officer remuneration	75,000	Senior Officer remuneration disclosures given the potential public interest in these figures.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 The revenue cycle includes fraudulent transactions (rebutted)</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including St Helens Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for St Helens Council.</p>
<p>2 Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our audit work has not identified any issues in respect of management override of controls.</p>

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of land and buildings

The Council re-values its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

The Council's financial statements 2018/19 include £460.5m net book value of property, plant and equipment (PPE), of which £258.6m is in respect of land and buildings.

Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at the year end.

Audit Findings

We are currently finalising our procedures to consider the valuation of land and buildings.

Based on the procedures completed, we have gained assurance that the Council has made appropriate adjustments and disclosures within the financial statements to reflect the valuation of assets identified within the valuation reports for the year ended 31 March 2019.

Procedures to review the competence and expertise of the Council valuer has not identified any matters to report to you and the scope of work involved is consistent with our expectations and relevant accounting standards and guidance.

Review of a sample of assets valued in the year has confirmed that the asset register has been correctly updated to reflect the work of the valuer and that assets have been valued on an appropriate basis.

We have considered and challenged the assumptions of the valuer as part of the sample testing carried out, including the use of the work of an auditor's expert to support calculation of an expected value for individual sampled assets, using common and readily available valuation indices. This has identified that the valuation of a number of assets are significantly different to expectations. We are working with management and the valuer to understand these differences and to conclude as to whether valuations are materially correct for these assets.

We have completed our testing on the valuation of land and buildings as at the 30th July 2019 and are now satisfied that the land and buildings valuations are materially correct.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>4 Valuation of pension fund net liability The Council's net pension fund liability, as reflected in its balance sheet as the net defined benefit pension liability, represents a significant estimate in the core financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£323m in the Council's 2018/19 balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's net pension fund liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • 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 evaluate the design of the associated controls • evaluated the instructions issued by management to their management expert (the 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 • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • confirmed the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of the Merseyside Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. <p>Audit Findings</p> <p>Performance of the procedures set out above has not identified any significant matters to report to you, subject to the receipt of the assurances from the auditor of the Merseyside Pension Fund.</p> <p>Following publication of the draft financial statements, management responded to the outcome of legal proceedings relating to the McCloud case by obtaining a revised IAS 19 valuation from the scheme actuary. As a result of the current legal position, the Council's gross pension liability has increased by £7,484,000. Further details relating to the McCloud pension ruling are set out on page 11.</p> <p>In addition to the McCloud adjustment, the scheme actuary has updated the valuation to reflect the actual rate of return on pension fund assets for the year. This has resulted in a decrease of the pension assets attributable to St Helens MBC of £3,511,000. The net effect of these adjustments is that the net pension liability of the Council has increased by £10,995,000.</p> <p>Management have adjusted the financial statements with regard to both of these findings as noted on page 20.</p> <p>We have now received assurances from the pension fund auditor and have checked the adjustments to the financial statements and we are satisfied with the value of the net pension fund liability as restated.</p>

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions – Non domestic rates (NNDR) appeals £12.3m	<p>NNDR rateable value appeal claims</p> <p>The Council are responsible for repaying a proportion of successful rateable value appeals. Management has calculated a provision based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. The provision for non domestic rate appeals is £12.3m in 2018/19 (£12.2m in 2017/18).</p>	<p>We examined the estimate, considering the;</p> <ul style="list-style-type: none"> • appropriateness of the underlying information used to determine the estimate • impact of any changes to valuation method • reasonableness of the movement in the estimate • adequacy of disclosure in the financial statements 	
		<p>Audit Findings</p> <p>We were satisfied with the methodology for the calculation of the provision and the disclosures within the financial statements.</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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – £258.6m net carrying value	<p>Land and buildings includes some specialised assets such as schools, 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 valued at existing use value (EUV) at year end.</p> <p>The Council has engaged external valuers Wilkes, Head and Eve LLP to complete the valuation of properties (excluding some investment property) as at 31 March 2019 on a five yearly cyclical basis. Assets with a gross book value of £3m or more are valued every year. 85% of total assets were revalued during 2018/19.</p> <p>The valuation of properties by the valuer has resulted in a net increase of £13.2m. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 31 March 2019, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value based on the fact that all assets over £3m have been valued and the in-year coverage represented a substantial proportion of the total value.</p>	<p>We examined the estimate, considering;</p> <ul style="list-style-type: none"> • assessment of management's experts; Wilkes, Head and Eve LLP and internal valuers • completeness and accuracy of the underlying information used to determine the estimate • impact of any changes to valuation method • consistency of estimate against relevant local government indices report (prepared by Gerard Eve) • reasonableness of the movement in estimate • adequacy of disclosure of estimate in the financial statements <p>Audit Findings</p> <p>As noted on page 6, we are currently finalising our procedures to consider the valuation of land and buildings. Procedures to consider the competence and expertise of the valuers has not identified any matters to report to you and we have not identified any findings in relation to the completeness and accuracy of underlying information. Review of a sample of assets to consider the consistency of valuations against auditor expectations, based on relevant local government indices has identified a number of instances where values are significantly different.</p> <p>We have challenged management and the valuer to provide explanations to support the reasons for these differences including support for any changes in valuation approach or assumptions. Management are currently working with the valuer to provide responses to these challenges which will be subject to further audit review and consideration before a conclusion can be drawn as to the appropriateness of valuation estimates.</p> <p>We have now received satisfactory explanations for the differences in the valuations of the sampled assets and conclude that the asset values are not materially misstated.</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

Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment																								
<p>Net pension liability LGPS – £300.9m</p> <p>The Council's net pension liability at 31 March 2019 is £300.9m (£244.8m at 31 March 2018) for the Merseyside Local Government defined benefit pension scheme (LGPS) obligations. The Council uses Mercer Ltd 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 latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £31.2m net actuarial loss during 2018/19.</p>	<p>We examined the estimate, considering;</p> <ul style="list-style-type: none"> assessment of management's expert; Mercer Ltd assessment of actuary's roll forward approach taken, detail work undertaken to confirm reasonableness of approach use of PwC as auditor's expert to assess actuary and assumptions made by actuary – the table below compares the Actuary assumptions <table border="1" data-bbox="860 544 1944 1070"> <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>2.4 - 2.5%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.3%</td> <td>2.2% - 2.3%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.7%</td> <td>3.1% - 4.35%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>90.1 - 87.8</td> <td>89.8 - 91.3 / 88.2 - 88.7</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>93.2 - 90.5</td> <td>92.9-94 / 90-91.4</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> completeness and accuracy of the underlying information used to determine the estimate impact of any changes to valuation method reasonableness of the Council's share of LGPS pension assets. reasonableness of movement in estimate adequacy of disclosure of estimate in the financial statements 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.4 - 2.5%	●	Pension increase rate	2.3%	2.2% - 2.3%	●	Salary growth	3.7%	3.1% - 4.35%	●	Life expectancy – Males currently aged 45 / 65	90.1 - 87.8	89.8 - 91.3 / 88.2 - 88.7	●	Life expectancy – Females currently aged 45 / 65	93.2 - 90.5	92.9-94 / 90-91.4	●	●
Assumption	Actuary Value	PwC range	Assessment																							
Discount rate	2.4%	2.4 - 2.5%	●																							
Pension increase rate	2.3%	2.2% - 2.3%	●																							
Salary growth	3.7%	3.1% - 4.35%	●																							
Life expectancy – Males currently aged 45 / 65	90.1 - 87.8	89.8 - 91.3 / 88.2 - 88.7	●																							
Life expectancy – Females currently aged 45 / 65	93.2 - 90.5	92.9-94 / 90-91.4	●																							

Assessment

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

Significant findings – matters discussed with management

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

Significant matter	Commentary	Auditor view
<p>McCloud pensions ruling</p> <p>A legal ruling on age discrimination within Pension Schemes (specifically the Firefighters new 2015 transitional schemes: McCloud) has implications for other public service schemes where they have implemented transitional arrangements on changing benefits. The impact of this has meant that there is a 'present legal obligation due' and employer bodies (i.e. the Council) are expected to:</p> <ul style="list-style-type: none"> recognise the assessed impact as an IAS19 past service cost (and current service cost for any in year impact) and an increase to the IAS19 gross pension liability make additional disclosures within the pensions note including the past service cost and increase to the gross pension liability resulting from the legal judgement. <p>This is a national issue which only crystallised in June 2019 when a further appeal court hearing was rejected.</p>	<p>The Council contacted their actuary (Mercer Ltd) in early July 2019 and have been provided with updated Local Government pensions calculations.</p> <p>Actuarial calculations resulted in an increased gross pension liability of £7,484k in respect of the McCloud judgement and an additional £3,511k liability due to the difference in pension assets from the estimated rate of return used in the initial estimate to the actual rate of return at the year end. Overall the adjustments have resulted in an £11m increase in the pension liability.</p> <p>The increase calculated by Mercers is based on use of the Government Actuary Department (GAD) standard assumptions of 1.5% real pay increases.</p>	<p>Auditor view</p> <ul style="list-style-type: none"> Management have adjusted for the assessed impact of the legal ruling and revised pension liability figures. The adjustment is included in the summary of audit adjustments on page 20. We concur with management's decision to adjust for this impact subject to review of assumptions underpinning the estimate. The assumptions used by Mercer Ltd as the pension scheme actuary have been subject to review by the PSAA consulting actuary along with Grant Thornton experts. The audit team are performing a number of follow up procedures based on the output of these reviews. An update will be provided at the Audit Committee. <p>As noted on page 7 we are satisfied with the valuation of the pension fund liability and the revised entries within the financial statements.</p>

Significant findings - Going concern

Our responsibility

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

Going concern commentary

Management's assessment process

Management's assessment is that there is no reason to consider the Council is at risk of not being a going concern.

Auditor commentary

The Council has sufficient cash, investment and reserves balances to deliver their services for 12 months from the date of the financial statements without income contributions.

Work performed

We have:

- held regular discussions with officers throughout the year; and
- examined the Council's financial statements and financial forward planning.

Auditor commentary

The Council's financial forecasts show that they have sufficient assets available to meet liabilities for the foreseeable future.

We have considered these forecasts and the Council's past performance against its budgets. We have no concerns over the Council's financial planning and forecasting.

Concluding comments

Auditor commentary

We intend to issue an opinion that is not modified in respect of Going Concern.

No events or conditions have been identified in the course of our audit that cast doubt on the entity's ability to continue as a going concern.

Other communication requirements

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

Issue	Commentary
① Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with management, Internal Audit and the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	<ul style="list-style-type: none"> The Council have now included St Helens Clinical Commissioning Group (CCG) as a related party in note 22. We are not aware of any other related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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.
④ Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council which is included in the Audit and Governance Committee papers.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the Council's bank and year end investments. We received positive confirmations for these.
⑥ Disclosures	<ul style="list-style-type: none"> The details of changes to disclosures are set out in the adjustments schedule in Appendix A. There are no significant amendments from the work completed to date. Testing has been finalised at the 30th of July 2019 and no issues have been identified.
⑦ Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All information and explanations requested from management were provided.

Other responsibilities under the Code

Issue	Commentary
① Other information	<ul style="list-style-type: none"> 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>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>
② 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>We have nothing to report on these matters.</p>
③ 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> <ul style="list-style-type: none"> Note that work is not required as the Council does not exceed the threshold
④ Certification of the closure of the audit	<p>We intend to certify the closure of the 2018/19 audit of St Helens Council in the audit opinion.</p>

Value for Money

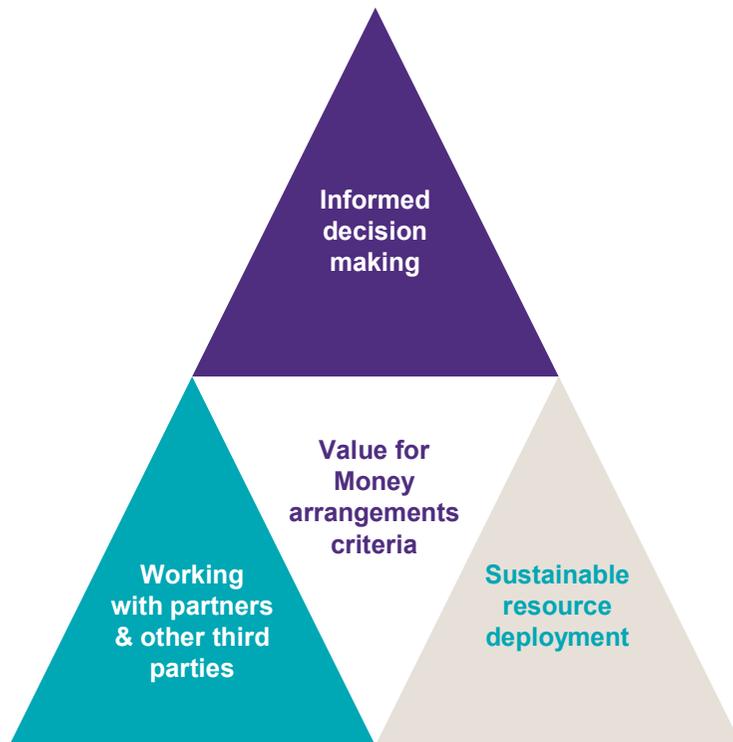
Background to our VFM approach

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

The guidance identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in January 2019 and identified two significant risks 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 February 2019.

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

Financial sustainability

At the time of our planning the Council's financial position remained challenging with continued reductions to Government funding together with increasing service demands. The Council need to deliver further savings of £13.1m in 2018/19 and 2019/20 whilst managing financial pressures in order to deliver a balanced revenue budget position over that period.

Throughout the year finance reports provided to Council, Cabinet and the Audit and Financial Monitoring Overview and Scrutiny Panel have set out revenue budget issues and actions being taken to address budget pressures. The financial position at the year end is a reported £1.864m overspend against budget.

Ofsted focused visit on Children In Need and Children Subject to a Child Protection Plan

In July 2018 the Council received a focused visit from Ofsted to review the services for Children in Need and children subject to a child protection plan. The focused visit found some significant problems across Children's Services and issued three Priority Action Notices to ensure that services improved. These indicated some serious shortfalls, weaknesses and failures within the current Children's Social Care Services. Ofsted also indicated the need to do further work with partners such as Health, Police and Education to strengthen the ability to safeguard children in the appropriate manner.

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:

- The medium-term financial position and future required savings challenges
- Progress made against the Ofsted priority action notices for Children's services

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 the following pages.

Overall conclusion

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

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Key findings

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

	Significant risk	Findings	Conclusion
1	<p>Financial sustainability</p> <p>At the time of our planning the Council's financial position remained challenging with continued reductions to Government funding together with increasing service demands. The Council need to deliver further savings of £13.1m in 2018/19 and 2019/20 whilst managing financial pressures in order to deliver a balanced revenue budget position over that period.</p>	<p>The financial position of the Council continues to be challenging and in 2018/19 the Council overspent its budget by £1.864m. The overspend was due to a number of spending pressures against the Council's budget; the most significant of these are continuing pressures in Children Looked After and Leaving Care Services for Younger People (£3.8m) and Learning Disability Support Services for Adults (£1.1m).</p> <p>The current and forecast financial position is set out in regular budget and performance monitoring reports to Cabinet. The reports set out the current revenue budget issues and actions being taken to address them to deliver a balanced position, and the position on the capital budget. The Council made a number of revisions to its original budget during the course of 2018/19 to help mitigate some of the budgetary pressures and it also achieved £2.9m savings.</p> <p>The Council's general fund reserves at 31 March 2019 are £17.8m (£21.3m at 31 March 2017/18). The Council have created additional earmarked reserves aligned to strategic priorities and these are held principally around children's social care, growth and environment and transformation risk and insurance. The earmarked reserves have increased to £38.8m at 31 March 2019 from £31.7m in 2017/18.</p> <p>The Council set a three-year Budget in March 2017 covering the period 2017/20 which required the Council to deliver £20.6m savings over three years through to 2019/20. The Council reported the latest 2019/20 revenue budget forecast to Cabinet in July 2019. This set out the key risks for the year including the delivery of approved budget savings plans, and pressures arising from demand-led expenditure budgets (particularly social care) and other budgets such as town centre rental, markets and parking income. The 2019/20 budget requires delivery of £6.2m savings and latest forecasts are that over 50% is at risk of delivery. The Council currently projects a £5.9m overspend for the year and is taking action to reduce the pressures on general fund balances. The Council has set out its budget savings proposals as part of agreeing the budget.</p> <p>Although the Council overspent in 2018/19, there are sound budget reporting arrangements in place to identify this and take action to monitor and reduce the forecast overspend. Therefore we are able to conclude appropriate arrangements are in place.</p>	<p>Auditor view</p> <p>We are satisfied, on the basis of the areas reviewed, that the Council's arrangements for financial management, reporting and budget setting, and its work with partners towards its strategic objectives, are adequate.</p> <p>It will be important for the Council to continue to monitor delivery of savings proposals and take corrective action to help mitigate the forecast overspend position.</p> <p>An unqualified VFM conclusion is proposed.</p>

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
2	<p>Ofsted focused visit on Children In Need and Children Subject to a Child Protection Plan</p> <p>In July 2018 the Council received a focused visit from Ofsted to review the services for Children in Need and children subject to a child protection plan. The focused visit found some significant problems across Children's Services and issued three Priority Action Notices to ensure that services improved. These indicated some serious shortfalls, weaknesses and failures within the current Children's Social Care Services. Ofsted also indicated the need to do further work with partners such as Health, Police and Education to strengthen the ability to safeguard children in the appropriate manner.</p>	<p>St Helens Council received its last full inspection of Children's Services in December 2014 which found that services for children in need of help and protection, children looked after and care leavers Required Improvement in all areas, including leadership and governance.</p> <p>In July 2018, the Council received a focused visit from Ofsted to review the services for children in need and children subject to a child protection plan. Ofsted issued three priority actions to the Council for service improvement to reduce the risk of harm and safeguard and promote children's welfare.</p> <p>The Council established a Children's Improvement Board to oversee delivery of an Improvement Action Plan in response to the Ofsted findings. The Local Government Association (LGA) carried out a Peer Review of Children's Services (October 2018) and a full Council review (January 2019) to inform further improvement and provide a wider insight across the Council. This Improvement Plan takes into account the findings from Ofsted and the peer reviewers, and details the actions required to ensure that children's services improve. The Council has acknowledged the need to improve and has committed to that improvement process. The Council has created a new leadership team to support the improvement work and provided additional significant financial investment to Children's services. The Council faces continuing demand pressures within Children's services with higher than average numbers of children open to Children's services compared to the England average and statistical neighbours. The Council also has considerable challenge across its social landscape affecting the demand for Children's care services.</p> <p>Ofsted are due to return to complete a full inspection imminently and the Council recognises that although they have responded quickly to the priority action notices the activity currently in progress continues to highlight areas that require significant improvement.</p> <p>Although the Council are still developing improvements against the Ofsted priority action notices for children in need and children subject to a child protection plan they have demonstrated a quick response and sound improvement plan arrangements in response. Therefore we are able to conclude appropriate arrangements are in place.</p>	<p>Auditor view</p> <p>We are satisfied, on the basis of the actions the Council is taking within Children's services in response to the Ofsted priority action notices that appropriate arrangements are in place.</p>

Independence and ethics

- Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters. We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies. Details of fees charged are detailed in Appendix B.

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. No non-audit services were identified which were charged from the beginning of the financial year to March 2019, 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 Subsidy Grant claim	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £80,932 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.
Teachers Pension Return	3,121	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,121 in comparison to the total fee for the audit of £80,932 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.
Non-audit related	N/A	N/A	N/A

The amounts detailed are fees agreed to-date for audit related services to be undertaken by Grant Thornton UK LLP in the current financial year. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Annual Audit Letter at the conclusion of the audit. None of the services provided are subject to contingent fees.

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

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

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 Additional net pension liability as a result of the McCloud ruling and revised actuary calculations:			
CIES Cost of services - £7,484k Dr	7,484		7,484 net expenditure increase
CIES - Remeasurement (Gains)/Losses on Pension Assets/Liabilities - £3,511k Dr	3,511		3,511 remeasurement loss increase
Balance Sheet – Pension Liability - £10,995k Cr		10,995	
Overall impact	10,995	10,995	10,995

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 omission	Detail	Auditor recommendations	Adjusted?
Note 22 Related Parties	The Council omitted to include St Helens CCG in the note	<ul style="list-style-type: none"> To add St Helens CCG into Note 22 Management response <ul style="list-style-type: none"> Adjusted 	✓
Note 25 Property, Plant and Equipment (PPE)	The Council have added additional disclosures for asset useful lives	<ul style="list-style-type: none"> To add disclosure for asset useful lives Management response <ul style="list-style-type: none"> Adjusted 	✓
Various	Some minor typos and corrections to improve presentation	<ul style="list-style-type: none"> To correct the minor disclosure errors Management response <ul style="list-style-type: none"> Adjusted 	✓

Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit Fees

	Proposed fee (£)	Final fee (£)
Council Audit	80,932	TBC
Total audit fees (excluding VAT)	80,932	TBC

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

Non Audit Fees

Fees for other services	Fees (£)
Audit related services:	
- Housing benefit grant certification	12,500
- Teachers pensions return certification	3,121
Non-audit services:	Nil
	15,621



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