Appendix A

Grant Thornton

The Audit Findings for St Helens Metropolitan Borough Council

Year ended 31 March 2020

13 November 2020

Contents

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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 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. The Finance and Audit team have both had to adapt to working remotely and overcome some initial issues with system access. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of 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	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum In April 2020. In that addendum, we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 6. Restrictions for non-essential travel has meant both Council and audit teams have had to adapt to new remote access working arrangements. This has included the use of video calling and screensharing for the verification of completeness and accuracy of information produced by the entity, and information sharing through our cloud based software. The accounts were provided to us on 10 August 2020 and working papers have been provided throughout the audit. The audit has taken longer than expected due to remote working and the competing demands on the Finance Team's time.
Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements: • give a true and fair view of the financial position of Council and income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our year end audit work was conducted remotely between August and November. Our findings are summarised on pages 5 to 15. Except for a small number of disclosure issues, no significant audit misstatements have been identified by the audit to date. Subject to the completion of the following outstanding matters, our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion : • appropriate resolution of audit work in the areas listed on page 5; • receipt of management representation letter; • review of the final set of financial statements, AGS and Narrative Report. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting property, plant and equipment valuation material uncertainties in respect of the Council's own assets

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 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').	We have completed our risk based review of the Council's value for money arrangements. Subject to a national moderation panel decision, we have concluded that St Helens Metropolitan Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for those in relation to Children's Services. An Ofsted inspection in September 2019 found widespread and serious failures in the quality of services for children in care and rated the overall effectiveness of the service as "Inadequate." Since that inspection the Council has put in place an improvement programme and has made good progress against it. This was confirmed by Ofsted in their follow up visit in August 2020. Whilst we can see that the Council is making good progress, the Council still need to continue to make further sustained improvements in its arrangements. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19, We therefore anticipate issuing a qualified 'except for' value for money conclusion. Our findings are summarised on pages 16 to 20.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code but are unable to issue our audit certificate until we complete the work necessary to issue our Whole of Government Accounts (WGA) component assurance statement .

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 will be discussed with the Audit 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;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

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 Committee meeting on 23 November 2020. These outstanding items include:

- finalisation of our work on the valuation of land and buildings and investment properties;
- conclusion of our testing of journals;
- completion of our work on the valuation of the pension fund net liability following receipt of evidence from the pension fund auditor;
- finalisation of a number of audit samples and procedures in relation to disclosure notes;
- resolution of any queries following the manager and audit partner's review of the audit file;
- receipt of management representation letter; and
- review of the final set of financial statements, AGS and Narrative Report.

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. These are detailed below.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	8,729,000	This equates to 2% of your gross operating expenditure for 2018/19 year and is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how the Council has expended its revenue and other funding.
Performance materiality	6,546,000	This is based on specific risks and sensitivities at the Council, such as the lack of deficiencies in control environment and quality of financial statements in prior years.
Trivial matters	436,000	This is the threshold for matters that are clearly inconsequential, whether taken individually or in aggregate.
Materiality for senior officers remuneration	5,000	This is due to its sensitive nature, with the value based on the salary bandings disclosed.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Financial reporting and accounting implications relating to the Covid-19 pandemic The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: • remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We worked with management to understand the implications of and 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 10 August 2020. We have also: • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose; • 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 using alternative approaches whilst working remotely; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and pension fund net liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • discussed with management the implications for our audit report. The results of our work concluded that appropriate arrangements have been put in place to manage the Covid-19 situation and suitable disclosures have been made in the financial statements. This includes the use of alternative arrangements in the decision-making process as permitted by the Council Constitution. We were able to obtain sufficient audit evidence by utilising screensharing for the verification of completeness and accuracy of information produced by the Council, and share information through our cloud based software. Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within their valuers report (in line with RICS Red Book Global). You have disclosed this material uncertainty within Note 2 of the financial statements. We will reflect your disclosure within an "emphasis of matter" paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work to date has not identified any evidence of management over-ride of controls.
Valuation of land and buildings The Council revalues 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 (£255m in the Council's 2019/20 accounts), and the sensitivity of this estimate to changes in key assumptions. 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.	The Council's valuer prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates. We have: • 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, the Council's valuer's report and the assumptions that underpin the valuation; • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluated the assumptions made by management for those assets not revalued during the period and how management has satisfied themselves that the carrying value is not materially different to the current value at year end. As disclosed on page 6, due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within their valuers report (in line with RICS Red Book Global). You have disclosed this material uncertainty within Note 4 of the financial statements. We will reflect your disclosure within an "emphasis of matter" paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty. Our audit work to date has not identified any issues in respect of valuation of land and buildings.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
The Revenue Cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition	We have: • evaluated the Council's accounting policy for recognition of income from fees and charges for appropriateness; • gained an understanding of the Council's system for accounting for income and evaluated the design of the associated controls; and • agreed, on a sample basis, amounts recognised as in the financial statements to gain assurance over occurrence and accuracy. Our audit work to date has not identified any issues in respect of revenue recognition that would change our rebuttal of this presumed significant risk.
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£290m in the Council's 2019/20 balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the 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 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; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report; and • obtained assurances from the auditor of 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. Where appropriate, we have relied on the audit work carried out by ourselves as auditors of the Merseyside Pension Fund in undertaking the above procedures. Our audit work to date has not identified any significant issues in relation to the risk identified.

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
IFRS 16 implementation has been delayed by one year Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/20 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.	Note 1 makes reference to IFRS 16 and discloses the date of implementation. The Authority has stated that the detailed work required to reasonably estimate the impact of standard has not been undertaken at present.	To fully comply with the requirements of IAS 8, the Council should explain why it has not been able to reliably estimate the impact of the new IFRS 16 *Leases* accounting standard.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £252.5m	Other land and buildings comprises £193m of specialised assets 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 £59.5 (EUV) at year end. The Council has engaged Wilkes Head and Eve (WHE) to complete the valuation of assets as at 31 March 2020 on a five yearly cyclical basis. 58.9% of total assets were revalued during 2019/20. In addition to the rolling programme, any single asset deemed as material is revalued every year to reduce the risk of non-valued assets. Management also review conditions that may impact non-valued assets, such as enhancements and obsolescence, and request for additional properties to be revalued if required. 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 in relation to estimation uncertainty at Note 2. The valuation of properties valued by the valuer has resulted in a net loss on revaluation of £3.4m The total year end valuation of other land and buildings was £254.757m.	The Council's accounting policy on valuation of land and buildings is included in the Accounting Policies note which starts on page 51 of the financial statements. **Key observations** • In line with RICS guidance, WHE has identified a material uncertainty regarding the valuation of land and buildings due to market uncertainty arising from the Covid-19 pandemic. Management have disclosed this as a major source of estimation uncertainty in Note 2 to the financial statements. • We assessed the qualifications, skills and experience of the valuer and determined the service to be appropriate. • The underlying information and sensitivities used to determine the estimate was considered to be complete and accurate. • The valuer prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates. • We have uplifted assets not revalued in the period using Gerald Eve indices and considered management's assessment that there has been no material changes to the valuation of land and buildings not revalued in year. • We consider the level of disclosure in the financial statements to be appropriate. **Conclusion** We are satisfied that the estimate of your land and buildings valuation is not materially misstated, subject to resolution of queries outstanding with the valuer.	Green

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 estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £290.768m	The Council's net pension liability at 31 March 2020 is £290.768m (PY £322.847m) comprising the Merseyside Local Government Pension Scheme benefit obligations. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 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. The net pension liability has reduced by £32.079m during 2019/20.	See below	● Green

In understanding how management has calculated the estimate of the net pension liability we have:

- assessed the use of a management's expert actuary;
- assessed the actuary's calculation approach;
- used PwC as auditors expert to assess actuary and assumptions made by the actuary (see table below);

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.3% - 2.4%	●
Pension increase rate	2.1%	2.1% - 2.2%	●
Salary growth	3.6%	3.35% - 3.6%	●
Life expectancy – Males currently aged 45 / 65	24.2 / 22.6	22.5 – 24.7 / 20.9 – 23.2	●
Life expectancy – Females currently aged 45 / 65	27.1 / 25.2	25.9 – 27.7 / 24.0 – 25.8	●

- undertook a reasonableness test of the Council's share of LGPS pension assets;
- assessed the reasonableness of the increase in the estimate; and
- assessed the adequacy of disclosure of estimate in the financial statements.
- confirmed there have been no changes to the valuation methodology since the previous year, other than the updating of key assumptions above.

Conclusion

We are satisfied that the estimate of your net pension liability is not materially misstated, subject to receipt of assurances from the auditor of Merseyside Pension Fund.

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 – going concern

Our responsibility

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

Going concern commentary	Auditor commentary
Management's assessment process In order to assess the going concern basis management have: • considered events or conditions that may impact the going concern assumption. • considered the impact of Covid-19 in 2020/21 and 2021/22 on the Council’s financial position. Despite the impact of Covid-19 and the uncertainties regarding future funding, management concluded it is appropriate to prepare their accounts on going concern basis and that no material uncertainty exists.	Management has undertaken their own assessment of going concern, taking into account Paragraph 2.1.2.9 of the Code of Practice on Local Authority Accounting states that “*An authority’s financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future*”. Management have considered the following factors: • The financial impact of Covid-19. In the 7 October 2020 Cabinet report, management was estimating the financial impact of Covid-19 in 2020/21 to be in the region of £20.7m excluding losses that relate to Business Rates & Council Tax. The Council is estimating that it will receive a total of £18.8m in government support to offset the majority of the additional expenditure and income losses in 2020/21. The impact of Covid-19 is expected to continue into 2021/22 through council tax and business rates losses and reductions (£7.8m). In addition, there are other ongoing Covid-related income and expenditure pressures totalling £4.0m. • The Council’s anticipated deficit for 2020-21 and the level of reserves that can be utilised to offset the deficit. • The current budget monitoring report for 2020-21. • The 2021/22 projection that has been updated in October to model the impact of Covid-19 as well as other ongoing non-Covid pressures such as Adults Services.
Work performed We have reviewed the Council’s financial assessment of the impact of Covid-19, 2020/21 budget monitoring reports, future financial plans and the Council’s level of reserves.	• Whilst there are uncertainties around future funding, no material uncertainty has been identified. • We reviewed the assumptions used by management in the forecasting their financial position in 2020/21 and 2021/22. We considered they had used reasonable assumptions, and that the forecasting process and underlying data used were reliable.

Significant findings – going concern

Going concern commentary	Auditor commentary
Concluding comments We are satisfied that the Council's financial statements are appropriately prepared on a going concern basis and that no further disclosure is required. Our opinion is therefore unmodified in respect of the going concern conclusion.	The Council has disclosed the impact of Covid-19 and the uncertainties regarding future funding in Note 2 of the financial statements. We asked management to update the disclosure and quantify the impacts referred to in the disclosure made initially in the draft statement of accounts. It has been a challenging year due to the Covid-19 pandemic and the impact of this has been: • additional administration of grants to businesses; • closure of schools, car parks, leisure centres, shopping centres, markets and children's centres with additional challenges of reopening services under new government guidelines; • providing support for the care sector, infection control and test & trace activity; and • the need to free up capacity of teams to assist with additional workloads caused by the pandemic in addition to normal responsibilities. In common with all local authorities, the Council is facing significant financial challenges, and is currenting forecasting a small deficit in 2020/21 of £3.2m. It is also projecting a budget gap of £20.4m in 2021/22. Management have undertaken an analysis of the potential financial implications of Covid-19 together with additional funding being provided. Management is working on proposals to identify savings to address the budget gaps in 2020/21 and 2021/22. It is possible that the Council may need to further use its reserves to pay its expenses in 2020/21 and 2021/22 if these savings are not identified or fully delivered. However, the Council has £9.3m general fund balance plus £51.8m earmarked general fund reserves so it will be able to absorb the immediate costs and loss of income caused by the pandemic. If the Council is able to make significant savings, this would leave general fund reserves low and the Council would not be as resilient to any future financial risks or economic shocks. The Authority needs to rebuild reserves whilst continuing to adequately fund statutory services to ensure effective service delivery.

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 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.
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 bank and investment counterparties. This permission was granted and the requests were sent. To date there are four outstanding requests relating to Australia and New Zealand Bank, Eastleigh, Sutton and Cambridgeshire Councils where we have had to perform alternative audit procedures to confirm balances. All remaining requests were returned with positive confirmation.
Disclosures	Our review found no material disclosure omissions in the financial statements
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided. Our findings are subject to the satisfactory completion of our work and the matters set out on page 5.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified through our work. As a result, we plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We are satisfied with the Annual Governance Statement and have nothing else to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.
Certification of the closure of the audit	We have completed the majority of work under the Code but are unable to issue our audit certificate until we complete the work necessary to issue our Whole of Government Accounts (WGA) component assurance statement .

Value for Money

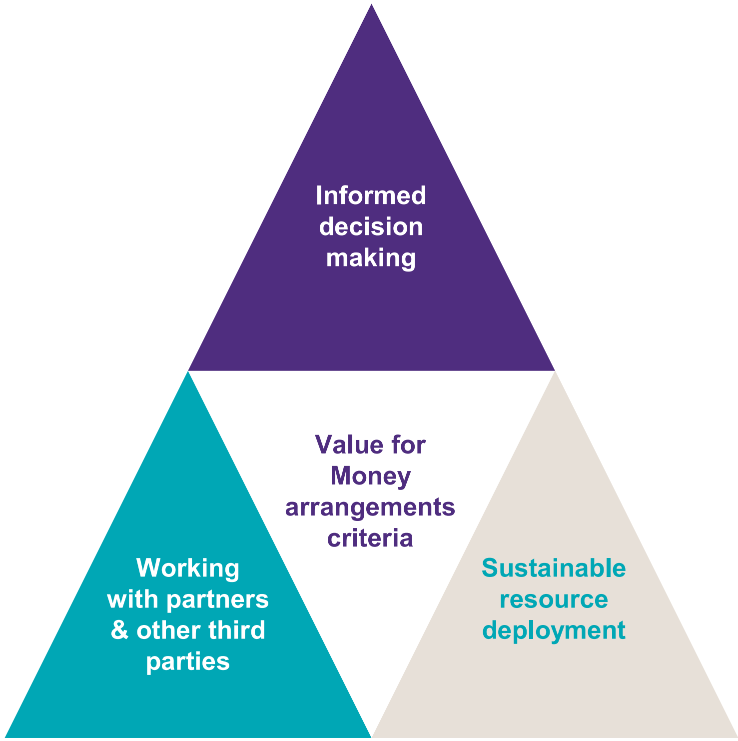
Background to our VFM approach

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 and identified a couple of 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 March 2020.

Our risk assessment is a dynamic process and we have had regard to new information which emerged since we issued our Audit Plan. We have continued our review of relevant documents up to the date of giving our report. We have not identified any further significant risks where we need to perform further work.

Please note that we have not identified any new Value for Money conclusion risks in relation to Covid-19 as we do not consider Covid-19 to be a significant risk for our 2019/20 VFM conclusion given the pandemic impacted so late in the financial year.

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 appropriateness of your financial arrangements.
- The appropriateness of your arrangements over the economy, efficiency and effectiveness of 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 pages 18 to 20.

Overall conclusion

Except for the matter we identified in respect of the quality of children's services, 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.

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 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
Financial Sustainability The Authority's current financial position remains challenging with continued reductions to Government funding together with increasing service demands. The Authority faced ongoing budgetary pressures in 2019/20 particularly within children and young people in care and adults disability learning and originally set a budget that included the delivery of £6.2m of service saving plans. The financial forecasts indicated a shortfall of £3m against the planned savings which together with ongoing service pressures will impact on general fund reserves at the end of the financial year. The Authority had set a one-year budget for 2020/2021 which includes the development of detailed portfolio budget savings options of £5m and the application of £4.9m earmarked reserves to arrive at a balanced budget position. This was before the impact of Covid-19 pandemic was known. Covid-19 has had a significant impact on the Council's income particularly car parking, rental income, fees and charges and collections of Business Rates and Council tax. The Council will need to model the impact of Codiv-19 on their 2020/2021 and medium term financial position and to decide on appropriate actions to mitigate any significant financial gaps that arise.	Our work included: • reviewing the in-year budget monitoring reports. • reviewing the Council's assessment of the Covid-19 impact and how the 2020/21 budget is being managed in the light of this. • reviewing the 2020/21 and 21/22 budget projections. We believe that the Council has good budgetary control arrangements in place to plan, monitor and report its financial position. However, like all local authorities, the Council is facing a significant financial challenge in the medium term. In order to achieve a balanced budget, the Council had to call on £8.5m of general fund balances in 2019/20. This reduced the general fund reserves, including earmarked reserves, to £61.1m as at 31 March 2020. This equates to 14% of the Council's gross expenditure. In comparison to similar sized authorities, the use of reserves in 2019/20 has taken the reserves to a below average level. Even before taking into account the impact of Covid-19, we agree with management of the need for the Council to look at ways of replenishing general fund reserves in the medium term. Failure to identify and achieve savings over the next few years may mean that the Council is unable to withstand any further budget pressures. The Council has been closely monitoring and assessing the financial impact of Covid-19. Officers recognise that this is a complex, evolving and iterative process. The Council are currently forecasting a Covid-19 impact of £20.7m in 2020/21. However, the Council is expecting government support of £18.8m to offset the majority of this financial impact. As at October 2020, the Council is forecasting a budget gap of £3.2m for 2020/21, which includes ongoing non-Covid pressures in areas such as adults and children's services. The Council is progressing its budget proposals for 2021-2022. Currently, the Council is projecting a £20.4m budget gap. Proposals are being developed to address the current forecast budget pressure for 2021-2022. However, this represents a significant savings challenge as it equates to 4.7% of gross expenditure, which will be very challenging in the current operating environment. Whilst the Council does have sufficient reserves to absorb any shortfall, this would leave reserves extremely low and therefore we would strongly advise against this. Management are aware of the scale of the challenge and we agree with the difficult and challenging actions that they have set out including:	

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
Financial Sustainability *(continued)*	• reviewing how all services are delivered to identify efficiencies and reduce the overall costs. • the cessation or reduction of some discretionary services or moving to provide minimum levels of statutory services. The Council will need to focus efforts on identifying and delivering savings options that are resilient and create long term financial sustainability in a post Covid-19 world. In undertaking this exercise, the Council will need to review the new ways of working implemented during the pandemic, retaining initiatives that increased productivity, reduced costs and led to no deterioration in statutory service delivery. It is intended a new Medium-Term Financial Strategy will be presented to the Council at Budget Council in 2021 to outline in detail the risks, assumptions and future year budget forecasts.	Whilst the Authority is facing a significant financial challenge in the medium term, we have concluded that financial management arrangements are fundamentally sound. However, whilst general fund reserves are adequate to withstand the projected budget gaps in 2020/21 and 2021/22, we believe that reserves are becoming low. Therefore, we believe that the Council needs to identify efficiencies and reduce discretionary services to replenish reserves over the medium term. Failure to do so will deplete reserves to levels that may mean that the Council is unable to withstand any further economic shocks. **Management response** Cabinet has received reports detailing the financial position for the current financial year and the forecast budget gap for 2021-2022 and has approved the progression of budget proposals to address the underlying budget shortfall for 2021-2022 and ensure a sustainable financial position for the future years. A key part of maintaining a sustainable financial position is to move away from the use of reserves, which is a key principle of the Council's approach for setting the 2021-22 budget and forecasting over the medium term. The requirement to realise savings of such magnitude requires a major programme to review how all services are delivered to identify efficiencies and reduce the overall costs. This may involve changing how services are delivered or supported, driving change through technology and more efficient commissioning. These reviews may also suggest the cessation or reduction of some discretionary services or moving to provide minimum levels of statutory services. However, the Council's approach will be to maintain financial sustainability and resilience, and align service changes to the Council's priorities and transformation agenda.

Value for Money

Significant risk	Findings	Conclusion
Ofsted inspection of children's social care services The inspection of children's social care services during November 2019 resulted in an "Inadequate" Ofsted rating for overall effectiveness. The inspection found widespread and serious failures in the quality of services for children in care. Failings included a lack of early planning for permanence, as well as a lack of tools and systems to remedy the situation in a timely manor resulting in a significant number of children waiting too long to secure legal permanence and achieve their full potential. No children that require help and protection were found to be left at risk of immediate harm during the inspection, however children and families are not receiving a good service.	Our work included: • reviewing the 2019 Ofsted inspection report. • reviewing the in-year budget monitoring reports. • reviewing the Council's Ofsted action plan and evidence of progress against it. • reviewing the findings from the Ofsted's monitoring visit in 2020. Following the 2019 Ofsted inspection, the Council has stepped up work to improve the effectiveness of children's services. It set up an ILACS action plan under a new senior leadership team. An action planning day was completed in December 2019 and the draft ILACS Action Plan was submitted to Ofsted in January 2020. The new action plan receives monthly oversight and challenge where required by the Children's Improvement Board, who are responsible for monitoring progress against the plan. The Council is making significant financial investments into the service to help it deliver those improvements whilst meeting service demand. In 2019/20, additional temporary funding of £8.1m was made available to children's social care services in response to the increasing financial pressures. However, children's social care services still overspent their budget by approximately £3.3m for the year. In 2020/21, the Council is investing an additional £15m of permanent funding into the service. The main budget pressure in the service remains Looked After Children where costs have more than doubled in the last five years. This is largely demand driven where the rate per 10,000 of young people under the age of 18, is significantly higher than comparable national and regional averages. A number of measures are being implemented to reduce costs in respect of Looked After Children and to achieve improved value for money in relation to care costs Ofsted conducted their monitoring visit in August 2020. They independently assessed the Council's progress in improving practice since the ILAC inspection in 2019. Ofsted concluded that considerable progress has been made by the service in both frontline practice and leadership. However, several areas for improvement remain include: • Challenge - Whilst progress has been made in this area the lack of challenge by managers in relation to practice is still a concern. • Supervision - This is now occurring in nearly all cases however there is a need to move beyond a 'tick box approach' in a number of areas. • Recording - Most case records are up to date however there are several cases that need to improve quality • Improving consistency - There remains a concern that practice is still too variable and common standards need to be addressed • Compliance - Historically the lack of compliance in social work practice continues to be a hurdle to improvement	The Council received an "Inadequate" Ofsted rating for its children's social care services. The Council has since taken considerable steps to address the findings of the 2019 Ofsted inspection. The latest Ofsted monitoring visit in 2020 has confirmed that good progress has been made but the Council still has a way to go to secure sustained improvements in the effectiveness of children's social care services. There is also a need to improve the economy and efficiency of the service. These matter are weaknesses in the Council's arrangements for managing the performance of children's social care services. They are evidence of weaknesses in proper arrangements for informed decision making in the performance management of the service. As a result, we are proposing an "except for" qualified VFM conclusion.

Value for Money

Significant risk	Management response
Ofsted inspection of children's social care services	Significant improvements in the quality of practice have been recognised in implementation of ILACS recommendations, with caseloads now at a more manageable level and alternatives to care having been developed. Further revisions to the Council's placement sufficiency strategy are being introduced to improve the planning and commissioning of long-term care placements, reduce the unit cost of placements and improve placement stability. Progress against the recommendations will continue to be monitored at the DfE Improvement Board.

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 13 November 2020, 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 Teachers Pension Return	7,178	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 £7,178 in comparison to the total fee for the audit of £96,282 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.
		Self review (because GT provides audit services)	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	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 £96,282 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.
		Self review (because GT provides audit services)	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.

Action plan

We have identified three recommendation 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
Low	**Off-ledger adjustments** The ledger transaction listings provided as part of the income and expenditure testing did not reconcile to the draft financial statements due to a number of transactions being processed outside of the financial ledger.	We would recommend that the number of transactions processed outside of the ledger are minimised and the ledger is updated regularly to reflect these adjustments. **Management response** There is an acceptance of the need to minimise such transactions. The adjustments made outside of the ledger are small in number and solely relate to those associated with IAS19 Employee Benefits. Due to their nature it is considered that it is appropriate to do so.
Medium	**General fund reserves** General fund reserves as at 31 March 2020 are £61.1m, which equates to 14% of the Council's gross expenditure. Reserves levels are becoming low and there is a risk that the Council will need to use reserves to address budget gaps in 2020/21 and 2021/22 unless mitigating action is taken. Management is currently working on proposals to identify efficiencies and reduce discretionary services to avoid the need to utilise reserves and replenish general fund reserves in the medium term. Failure to do so over the next few years may mean that the Council is unable to withstand any future economic shocks	The Council needs to continue to identify and deliver efficiencies and reduce discretionary services to replenish reserves over the medium term. **Management response** The Council recognises the magnitude of financial pressures it faces and is committed to a challenging programme of service review and transformation to maintain financial sustainability, resilience and align service changes to the Council's priorities and transformation agenda. This is a key principle of the Council's approach for setting the 2021-22 budget and resourcing sustainably over the medium term.
High	**Children's social care services** The Council received an "Inadequate" Ofsted rating for its children's social care services in 2019. The Council has since taken considerable steps to address the findings of the 2019 Ofsted inspection. The latest Ofsted monitoring visit in 2020 has confirmed that good progress has been made but the Council still has a way to go to secure sustained improvements in the effectiveness of children's social care services. There is also a need to improve the economy and efficiency of the service.	The Council should continue to make progress against the ILACS action plan and identify ways to reduce costs in respect of Looked After Children and to achieve improved value for money in relation to care costs. **Management response** The Council has demonstrated a very significant commitment to improving the services for children, including a reduction in caseloads and has made revision to the systems, processes and resources that will seek to reduce looked after costs, deliver better service outcomes and deliver value for money. This will be further formalised in the placement sufficiency strategy and children's services demand strategy.

Controls

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

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 and unadjusted misstatements

To date, we have not identified any significant audit misstatements. As stated on page 5, there are several areas of audit work which have not yet been finalised as at 19 November 2020.

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.

Detail	Auditor recommendations	Adjusted?
Audit fees	Audit fees disclosed in Note 23 in relation to the certification of grant claims and returns are understated by £4k.	Yes
Note 2	The Council should clearly differentiate between those items which are critical judgements and those which are areas of material estimation uncertainty through the use of sub-headings.	Yes
Critical judgements	Immaterial critical judgement disclosures (considering both quantitative and qualitative materiality), such as leases, should not be disclosed.	Yes
Critical judgements	Given the fluid situation, the draft disclosures in Note 2 regarding Covid-19 and future funding should be updated to reflect the latest position. In addition, we ask that the Council quantify the estimated income and expenditure losses referred to in the disclosure.	Yes
Going concern	In Note 2, the Council should provide additional commentary on their assessment of the sufficiency of cash balances and adequacy of the reserves in the medium term.	Yes
Estimation uncertainty	Only estimates where there is material estimation uncertainty should be disclosed. For material areas, such as the valuation of land and buildings and the net pension liability, the sensitivity of carrying amounts to assumptions and estimates, and/or the range of reasonably possible outcomes within the next financial year, should be quantified to help users fully understand the effect of estimates. If this information is provided elsewhere in the accounts, a cross reference to the relevant note will suffice. In addition, the carrying amount as at 31 March 2020 of the asset or liability affected should also be disclosed in Note 2.	Yes
Accounting standards not yet adopted	To fully comply with the requirements of IAS 8, the Council should explain why it has not been able to reliably estimate the impact of the new IFRS 16 *Leases* accounting standard.	Yes

A number of miscellaneous minor amendments were made to the financial statements due to matters identified during the course of the audit. None of these are considered individually significant to warrant further disclosure.

Fees

We confirm below our final fees charged for the audit services.

Audit fees	Proposed fee	Final fee
Council Audit	£96,282	TBC
Total audit fees (excluding VAT)	**£96,282**	**TBC**

Covid-19 has impacted on the audit of your financial statements in several ways. These impacts include:

1. **Revisiting planning** - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has driven additional areas of audit work.
2. **Management's assumptions and estimates** - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions.
3. **Financial resilience assessment** – we are required to consider the financial resilience of audited bodies. I know from our discussions over the last few months that Covid-19 has had a significant impact on the Council's finances. This has increased the amount of work that we need to undertake on going concern and value for money (financial sustainability).
4. **Remote working** – the most significant impact in terms of delivery is the move to remote working (both our teams and yours). We, and other auditors, are experiencing considerable delays as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of relevant staff (due to shielding, being diverted to other essential functions, or other additional Covid related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming. The Government's current expectation to work from home as the default position is now likely to make this a greater issue for the audit than if we had been able to gradually return to our offices and council premises over the autumn of this year, as originally anticipated.

We have been discussing the impact Covid-19 has been having on audits with PSAA over the last few months and note that these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month.

The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

To date, we estimate that the issues highlighted above are increasing the time taken on audits by an average of 25%, in some cases higher. We understand from discussions with the ICAEW that this is similar to other firms. Pleased be assured that we are trying to mitigate this as far as possible through reduced travel time and travel costs and will be looking how we can absorb some of the remaining overrun ourselves. However, it is unlikely that this will not be sufficient to cover the full additional cost. We are aware that the Council's finances are constrained and we will seek to minimise these costs as best we can and will also consider our own performance in delivering to the November deadline. We will discuss any variations to the planned audit fee with the Director of Finance before reporting to the Audit and Governance Committee at its next meeting.

Fees

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

Non-audit fees for other services	Proposed fee	Final fee
Certification of 2018/19 Housing Benefit subsidy claim	12,500	£12,500
Certification of 2018/19 Teachers Pension return	£3,121	£7,178
Total non- audit fees (excluding VAT)	**£15,621**	**£19,678**

Please note the proposed fees for 2019-20 certification work are £14,000 for the housing benefits subsidy claim and £6,000 for the Teacher Pensions return. This certification work will be completed over the next few months in accordance with agreed deadlines.

Grant Thornton