For publication

Grant Thornton

Audit Findings Report for Halton Borough Council

Year ended 31 March 2019

November 2020

Contents

Your key Grant Thornton team members are:

Sarah Ironmonger
Engagement Lead
T: 07880 456149
E: sarah.l.ironmonger@uk.gt.com

Mark Heap
Engagement Lead
T: 07880 456204
E: mark.r.heap@uk.gt.com

Helen Stevenson
Audit Manager
T: 07880 456209
E: helen.l.stevenson@uk.gt.com

Andrew McNeil
Assistant Manager
T: 0161 234 6366
E: andrew.mcneil@uk.gt.com

Section	Page
1. Headlines	3
2. Financial statements	5
3. Value for money	25
4. Independence and ethics	29

Appendices

A. Action plan
B. Audit adjustments
C. Fees

Annex 1

Detailed schedule of audit adjustments

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.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Halton 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 audit	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 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. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Members will be aware that our audit work has spanned well over a year to accommodate the need for substantial revisions to the financial statements to address a number of material issue including material prior year adjustments. This has resulted in a number of amendments which has taken a significant amount of additional audit time and cost. Our detailed findings from the audit are included in the following pages. Subject to satisfactory checking of all amendments through the final version of revised financial statements we anticipate issuing: • an unqualified opinion on the Council's financial statements • an unqualified opinion on the value for money conclusion. Our audit work on the financial statements started during June 2019 and due to the complexity of the matters arising and the resulting number (both volume and value) of adjustments the audit has extended through to September 2020. As a result there have been • £35.7 million adjustment to the Council's Comprehensive Income and Expenditure Statement 2018/19 with the reported deficit on provision of services being adjusted to £7.1 million and a £22.7 million adjustment to the net total CIES • £198 million reduction to total net assets and £51.9 million adjustment to total equity • material amendments to the 2017/18 and 2016/17 financial statements which have required restatement. The full listing of audit adjustments for all three years 2018/19, 2017/18 and 2016/17 are listed in Appendix B which we have now fully reconciled to the final version of the financial statements. The key underlying reason for the volume and value of the adjustments relates to the accounting treatment of the Mersey Gateway Bridge. We have raised a significant number of recommendations for management as a result of our audit work. These are set out in Appendix A. Our work is now substantially complete, subject to the following outstanding matters: • receipt of management representation letter 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. The Council updated the Narrative Report and Annual Governance Statement (AGS) during the course of the audit to reflect the adjustments arising from the audit. The AGS now needs updating to reflect any further developments up to the date of issuing our opinion. Our anticipated audit opinion will be unqualified including an Emphasis of Matter paragraph in relation to the substantial prior period adjustments. An emphasis of matter paragraph is not a qualification and is intended to draw users' attention to a matter disclosed in the accounts we consider to be significant.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Halton 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.

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’).	As part of our original audit planning we identified a significant risk in relation to the Council’s challenging financial position. We have now concluded that the Council had proper arrangements in place for delivering financial sustainability. We have continued our review of relevant documents up to the date of giving our report, and identified a further significant risk in relation to the accuracy of financial reporting following the significant difficulties experienced by the Council in producing materially accurate statutory financial statements. We have completed our risk based review of the Council’s value for money arrangements. We have concluded that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have however included an emphasis of matter paragraph within our audit report to reflect the substantial amendments made to the draft financial statements for 2018/19 and prior years. **We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised in section 3.**
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. Due to the extended period of the audit there is no longer any requirement for the Council to complete a Whole of Government Accounts return following the issue of our audit opinion. We will certify the closure of the audit on the issue of our opinion.

Acknowledgements

We have worked extensively with the finance team over the extended period of the audit to work through all the many errors and queries arising. This has been protracted and involved a significant amount of extra work from both finance and audit team members. We would like to take this opportunity to record our appreciation for the Council staff’s assistance during this audit.

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 will be discussed with management and the Business Efficiency Board.

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

Audit approach *(continued)*

- 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 January 2019, except for:

- Revising our risk assessment on the Mersey Gateway Private Finance Initiative (PFI) scheme to include this as a significant area of risk of material misstatement.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved and final quality checks completed, we anticipate issuing an unqualified audit opinion. These outstanding items include:

- receipt of management representation letter
- finalising our checking of all amendments in the final set of financial statements
- checking updates to the Council's revised Annual Governance Statement
- completing our final quality assurance on the final agreed financial statements

We will agree the timing of the issue of our opinion once this work is complete.

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. We detail in the table below our determination of materiality for Halton Borough Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	7,421,000	• Considered to be the level above which users of the accounts would wish to be aware misstatements, in the context of overall expenditure. Based on 2% of prior year gross expenditure.
Performance materiality	5,565,750	• Assessed as 75% of Financial Statement materiality.
Trivial matters	371,000	• 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.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions (rebutted)	**Auditor commentary** 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. 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: • 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 Halton Borough Council, mean that all forms of fraud are seen as unacceptable **Audit Findings** We examined the appropriateness of the recognition of revenue as part of our testing of Council transactions and identified material amendments which also impact on prior year figures and therefore restatements were required. **Grants Receipts in Advance (GIA)** The CIPFA Code requires that grants received can only be held on the Balance Sheet as a liability (held in advance) when there are conditions attached to the grant that have not yet been fulfilled. Audit testing identified grants classified as grants in advance where there were no outstanding conditions and therefore the classification was incorrect. *Current Liability: Revenue Grants Receipt in advance at 31 March 2019 £46,167k* We tested £44,702k of this balance (including Mersey Gateway Grants £44,306k) and found £35,305k of this balance had no outstanding conditions. *Long term liability: Capital Grants Receipt in advance at 31 March 2019 £29,893k* We tested £14,750k of this balance and found one error for £1,768k. In view of the findings from our sample testing we asked the Council to complete a full check on the treatment of all grants being held in advance. This included testing all revenue and capital items and checking these through to grants documentation to see if there are any conditions outstanding. We then sample tested the Council's findings which had identified a number of additional errors.

Significant findings – audit risks

Risks identified in our Audit Plan

The revenue cycle includes fraudulent transactions (rebutted)

Commentary

Auditor findings (cont.)

The final amendments made to the financial statements for incorrect treatment of GIA are as follows:

Balance Sheet	1/4/2017 £'000	31/3/2018 £'000	31/3/2019 £'000
Original draft accounts			
ST liabilities – revenue	4,666	24,948	46,167
LT liabilities – capital	22,297	24,343	29,893
Total	**26,963**	**49,291**	**76,060**
Revised accounts			
ST liabilities	5,944	5,937	5,028
LT liabilities	12,931	14,303	14,819
Total	**18,875**	**20,240**	**19,847**
Net adjustments including prior periods	**8,088**	**29,051**	**56,213**

CIES – Government grants income (note 2)	2017/18 £'000	2018/19 £'000
Per draft accounts	180,692	168,813
Restated accounts	201,655	198,127
Adjustments including prior period restatement	20,963	29,314

The resolution of this issue involved extensive discussions with the finance team and additional auditor time.

We have raised a recommendation in the action plan to reflect our findings.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
Management override of controls	**Auditor commentary** 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. Our audit response to the risk of management override of controls includes • testing of unusual journal entries back to supporting documentation • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions • review of significant related party transactions outside the normal course of business • review of journal entry processes and controls in place **Audit Findings** We have completed our testing of journals and examined the controls around processing these. We have not identified any errors from this work. We have examined related parties disclosures within the Council's financial statements. The Council has amended some of the detailed entries for its related parties in note 13 of the revised financial statements which now also includes disclosures for Merseytravel. We note also that the disclosure is quite extensive and should only reflect related parties where there is control, significant influence and the party is a member of the key management personnel of the reporting entity (Code 3.9.27). We have raised a recommendation for the Council to examine the disclosures in this area. We worked with the Council on key accounting estimates and judgements and as a result have agreed material adjustments in particular in relation to • the Mersey Gateway private finance initiative (PFI) scheme and the Council's judgements for reflecting the associated asset and liability • accounting for grants received • depreciation charged on the Council's asset base, • debtors provisions and • pension fund net liabilities.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (£165m net book value) 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 unaudited financial statements 2018/19 included £1,057m net book value of property, plant and equipment (PPE), of which £165m is in respect of land and buildings. Additionally, management 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 have complete our work and identified: • The omission of the effective date of valuations analysed across each of the preceding financial years to reflect its rolling programme of valuations (in line with the Code requirement in paragraph 4.1.2.3 4). • 10.9% of total Other Land and Buildings had been subject to valuation in 2018/19 and that 65% or £107m net book value (out of a total £165m) of Other Land and Buildings had not been revalued since 1 April 2015 (for the 31 March 2016 financial year). • limited documented evidence to support the management judgement that the carrying amount does not differ materially from that which would be determined using current value at the end of the reporting period for those assets not subject to in year valuation. Paragraph 4.1.2.37 of the Code specifies that for assets that are required to be carried at current value, revaluations must be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the end of the reporting period. The Council has therefore not covered a sufficient proportion of assets within their rolling programme to give adequate assurance in this area.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (£165m net book value) 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 unaudited financial statements 2018/19 included £1,057m net book value of property, plant and equipment (PPE), of which £165m is in respect of land and buildings. Additionally, management 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	**Audit Findings (cont.)** In view of these findings we completed additional work: • We tested a sample of assets to compare management's valuations against auditor expectations and requested management, with support from the valuer, to provide explanations for any differences including support for any changes in valuation approach or assumptions. • We requested that the Council's valuation team complete further work to assess whether an additional sample of property, valued at depreciated replacement cost and not recently included within the 5 year valuation programme, had materially changed since the date last revalued and recorded in the financial statements. The valuer completed a desktop valuation on a total of £95.6 million assets held at depreciated replacement cost (out of a total £164 million other land and buildings net valuation). The additional sample findings concluded that the 19 assets covered by the valuer had a total revised valuation of £98.7 million (an increase of £3 million or 1% on the original valuation figures). The valuer provided supporting notes giving further details on the methodology on a sample of the assets covered and underlying reasons for the detailed movements supported by local indices used. We completed further work to examine the additional in-house valuations and detailed methodology applied and were satisfied that the values recorded in the financial statements are not materially misstated. We have summarised our findings on page 18 and raised a number of recommendations in this area.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability (£138m) 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. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£138m in the Council's unaudited 2018/19 balance sheet) and the sensitivity of the estimate to changes in key assumptions. 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.	**Auditor commentary** We have undertaken the following work in relation to this risk: • 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 Cheshire 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. **Audit Findings** Performance of the procedures set out above has identified material amendments which also impact on the prior year financial statements which have required restatement. **Unfunded liabilities** On examination of the Council's actuarial report for the period to 31 March 2019 we noted there were no unfunded liabilities included in the Council's actuarial valuation. Unfunded liabilities are those where officers and teachers have taken early retirement and there is an added cost to fund these. Following discussions with the finance team, we identified three areas of unfunded liabilities not accounted for in the Council's financial statements: 1. Teaching staff retirements, pre 1998 The Council is making annual payments of £374k to Cheshire West and Chester Council to fund those teachers who retired early prior to the establishment of the Unitary Authority on 1 April 1998. Historically Cheshire West and Chester Council (CWaC) administer the payments for these teachers and receive reimbursement from each of the post Unitary Councils (including Halton). Halton Council has not previously included an actuarial valuation of its share of this liability in its financial statements. The Council has now assessed its liability and included £4.1m for its share (10.2%) of the Cheshire County pre 1998 teachers actuarial valuation in the 2018/19 financial statements. The Council has also restated the entries for 2017/18 and 2016/17 as required by auditing standards.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability (£138m) 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. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£138m in the Council’s unaudited 2018/19 balance sheet) and the sensitivity of the estimate to changes in key assumptions. 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.	**Audit Findings (cont.)** 2. Teaching staff retirements post 1998 Pension gratuity cost payments totalling £518k were identified which relate to payments that had not been identified previously or sent to the actuary for a valuation. This has now been done and an updated actuarial report received and an additional pension liability of £2.7 million was identified and an amendment agreed. The 2017/18 figures is estimated 3. Non teaching staff retirees pre 1998 This has been a difficult area to resolve due to a lack of clear information in the past. CWaC has now provided an estimated actuarial calculation to assess the potential valuation across the four relevant Councils. The estimate has been based on an analysis of the current retirees and resulted in a 10.2% share relating to Halton. This is an estimate and Halton’s share is currently valued at approximately £382k. The Council has not included this value in the financial statements and we have recorded this as an unadjusted misstatement. We received additional evidence from CWaC to support the % share of the liability pre and post 1998 and the % allocated to Halton. CWaC has split the £61,741k total teachers pension fund liability for all 4 Councils into 65.2% pre 1998 and 34.8% relating to liabilities after the 1998 split. Halton’s share of the pre 1998 split is 10.2%. We are now satisfied that the underlying data and estimation process is reasonable and in line with information from CWaC. There are a number of recommendations arising from this area of work as set out in the action plan. **McCloud pension liability** 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 increased by £2,661k. Further details relating to the McCloud pension ruling are set out on page 20. 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 Halton Council of £14,206k. The overall effect of these adjustments is that the net pension liability of the Council has increased by £16,867k.

Significant findings – additional audit risk

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. During the audit, we identified the valuation of the Mersey Gateway Bridge (asset and liability) as a significant audit risk due to the size of the liability and the complexity of the underlying estimation model.

Issue	Commentary	
Valuation of Mersey Gateway Bridge (Infrastructure asset net book value £746,312k) **Valuation of Mersey Gateway PFI liability (long term liability £643,812k)** The Mersey Gateway Bridge opened in October 2017 and was brought into the 2017/18 financial statements as an Infrastructure Asset with a related PFI financial liability payable to the operator MerseyLink Limited (Ltd). Halton Council established a wholly owned subsidiary, the Mersey Gateway Crossings Board Ltd (MGCB) to deliver the MG bridge project and to administer and oversee the construction, maintenance and operation of the new tolled crossings. The Council and MGCB entered into a project agreement with the Merseylink Consortium, which is responsible for the design, build, finance, operation and maintenance of the crossing. The long term contract is in place until 2044 when it is planned that the project will be handed back to the Council in a good condition with all private finance repaid. As the audit work for 2018/19 progressed we identified a number of issues in respect of the way the Council had accounted for the various transactions relating to the Mersey Gateway Bridge asset and liability valuation. These findings are set out in the commentary.	**Audit Findings** As part of our early review of significant entries in the financial statements we identified initial queries on the valuation of the Mersey Gateway (MG) asset and PFI liability reported in the 2017/18 financial statements. To resolve our initial queries we considered we needed to review the underlying operators financial model. During the 2017/18 audit the Council had not provided the underlying operators financial model due to commercial sensitivity. Given the significance of the judgements involved and the scale of the entries we obtained the financial model which included full details of the infrastructure costs and PFI transactions and underpins the required entries in the financial statements. As part of the audit review, the costs and liabilities set out in the operator's financial model were found to be materially different to the values carried in Halton's financial statements and we engaged our specialist PFI team to provide support in this area. The Council engaged a specialist PFI accountants to act as an independent management expert to determine the accounting entries for both the 2018/19 and 2017/18 financial statements. The outcome of the reviews resulted in significant material amendments in the financial statements. *Original creation of entries for the Mersey Gateway (MG) Bridge infrastructure asset and liability (in 2017/18)* The values to create the infrastructure asset and related PFI liability and reflecting the Council's prepayment to the operator should have been accounted for in 2017/18 as follows: **Bridge asset value - £472,081k** The Council should have established the fair value of the Mersey Gateway Asset at £472,081k in line with the construction costs within the operator's financial model.	**Auditor view** In future when considering any complex areas of accounts the Council need to consider: • the extent to which they require management expert advice to ensure the financial statements are soundly based • use correct underlying data for producing the entries within the financial statements

Significant findings – additional audit risk (continued)

Issue	Commentary
Valuation of Mersey Gateway Bridge (Infrastructure asset net book value £746,312k) **Valuation of Mersey Gateway PFI liability (long term liability £643,812k)** The Mersey Gateway Bridge opened in October 2017 and was brought into the 2017/18 financial statements as an Infrastructure Asset with a related PFI financial liability payable to the operator MerseyLink Limited (Ltd). Halton Council established a wholly owned subsidiary, the Mersey Gateway Crossings Board Ltd (MGCB) to deliver the MG bridge project and to administer and oversee the construction, maintenance and operation of the new tolled crossings. The Council and MGCB entered into a project agreement with the Merseylink Consortium, which is responsible for the design, build, finance, operation and maintenance of the crossing. The long term contract is in place until 2044 when it is planned that the project will be handed back to the Council in a good condition with all private finance repaid. As the audit work for 2018/19 progressed we identified a number of issues with respect to the way the Council had accounted for the various transactions relating to the Mersey Gateway Bridge asset and liability valuation. These findings are set out in the commentary.	**PFI lease liability - £369,581k** The Council should have recognised a matching liability initially of £472,081k (the FV of the asset) and then reduced this by a cash contribution of £102,500k paid to the operator before the asset was constructed. The Council should have recorded therefore a net PFI liability of £369,581k at the start of the project. **Pre-payment - £102,500k** The pre-paid contribution to the operator was originally included separately within PPE. It should have been accounted for as a reduction to the PFI liability at the start of the project. During 2017/18 the Council brought in both the asset value and PFI liability at significantly inflated costs. The Council's opening values as at 1/4/2018 in the draft 2018/19 financial statements were: - MG asset net book value £734,260k - PFI liability of £640,489k. The Council had not used the underlying operators model and in addition had not reduced the PFI liability by its previous cash contribution paid of £102,500k. The closing values for 2018/19 are: - MG asset net book value £460,820k - PFI liability £361,722k The revised entries for 2017/18 led to the need for amendments for both years (including 2018/19) and required a prior period adjustment. The Council has restated the entries for 2017/18 to correct the material errors and applied correct entries now to restate the 2018/19 values. Further details of the revised prior period adjustment are included in note 42.

Significant findings – other issues

Issue	Commentary	
Depreciation charged on infrastructure assets	**Mersey Gateway Bridge depreciation** When preparing the 2018/19 accounts the Council continued with the policy adopted in 2017/18 of applying a single 30 year life (reflecting the tolling period of the bridge) to the whole of the asset value when calculating its depreciation charge. The CIPFA Code (para 4.1.2.43) requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately, unless they have the same useful life and/or depreciation method. The Council has now separated the differing components of the Mersey Gateway Bridge using the cost breakdown within the operators financial model and applied different asset lives to each major component. The Council is depreciating the main structural elements over a 120 year life, highways elements over 25 years and other components over 30 years. The revised depreciation charge for the Bridge for 2018/19 is now £7.7m and the Council has restated the 2017/18 accounts to reduce the depreciation charge by £8.65m to £3.4m (as shown in the prior period adjustment note 42c). We have discussed the revised componentisation policy during the audit and have examined the revised calculations and supporting expert advice. We are now satisfied that the methodology for the depreciation being applied is reasonable and reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed. **Infrastructure asset depreciation** As part of examining the revised depreciation calculations for the Bridge we noted that the Council has historically applied a 15 year life to its infrastructure assets overall which we queried as in our view this was low compared to other councils. The Council made further detailed enquiries with its highways department and now its policy from 2018/19 to apply a 25 year life to new roads but leaving older infrastructure assets to depreciate over 15 years. The Council's revised highways depreciation policy will be applied in future years. As estimating asset lives and depreciation involves some judgment we are satisfied the Council has now obtained supporting expert evidence in this area we have no further issues to raise.	**Auditor view** The Council needs to ensure it is up to date with the requirements of the Code when applying depreciation to its asset base. Componentisation should apply to all assets of significant value with potentially differing component lives. Finance officers should examine the appropriateness of its accounting policies on a regular basis to make sure these are robust and approved by the Council.

Significant findings - other issues

Issue	Commentary	
Omissions and Inaccurate disclosures (cont'd)	We found areas where the disclosures within the financial statements did not fully comply with the requirements of the CIPFA Code of Practice. These included: • Financial instruments (inaccuracies) • Leases (omitted) • Heritage assets (required Code disclosure omitted and no valuations available for some cultural assets) • Effective date of valuations of PPE (omitted as documented on page 9) • Use of old terminology in places • Accounting policies included within Other, not placed in the Core Financial statements as suggested by the Code • Typos and casting errors	**Auditor view** The Council need to ensure that its draft financial statements provided for audit are completed fully in line with the requirements of the CIPFA Code. It should complete the CIFPA disclosure checklist which needs to be checked by a senior officer. This should help reduce omissions and errors in the financial statements.
Debtors and Creditors general ledger (GL) code analysis	On examination and testing of year end debtor and creditor balances we noted that the Council has not reconciled the net balance on the GL codes to its year end listing of debtors and creditors. The analyses provided for us to sample test were made up of all movements on the ledger code during the period. The risk is that the GL codes could contain a number of errors that are continually carried forward without clearing and agreeing the movements to the year end balance position.	**Auditor view** The Council need to examine the entries within the debtor and creditor ledger codes to ensure these reconcile to the year end debtor and creditor balances.
Cashflow statement	On checking the cashflow statement we identified a compilation error of £67.5 million where the pre-payment to the PFI Operator had been incorrectly included under investing activities rather than financing activities. There were other amendments processed for the prior year and in year adjustments made to the other core statement affecting the cashflow entries. In resolving the complexity of the issues involved a number of versions of the cashflow statement were provided and checked by audit.	**Auditor view** The Council need to ensure it has a thorough process in place for compiling the cashflow statement in line with Code guidance.
Expenditure and Funding Analysis (note 1)	On checking the EFA (note 1) we found this did not fully comply with Code disclosures to: • explain material reconciling items in the adjustments column (Code para 3.4.2.100) • show revenues from external customers on a segmental basis (Code para 3.4.2.101) Also the Council made other compilation amendments, including correcting column headings in the adjustments note (to show this as other adjustments), include the reserves adjustment in the EFA and correct the surplus deficit figure.	**Auditor view** The Council needs to ensure the compilation of the EFA follows the requirements of the Code and is thoroughly checked prior to sending for audit.

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals £5,409k	**NNDR rateable value appeal claims** The Council is 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 £5,409k in 2018/19 (£5,505k in 2017/18).	We examined the estimate, considering the; • 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 **Audit Findings** We were satisfied with the methodology for the calculation of the provision. The Council has now reclassified £2,324k of the provision as long term.	● (green)
Insurance provision £2,044k	**Insurance provision** The Council has a number of outstanding insurance claims relating to employers liability and public liability claims as at 31 March 2019.	**Audit Findings** We noted the Council had not included any provision for the potential cost to them in settling any outstanding insurance claims. The Council has now reduced earmarked reserves by £2m to create a short term insurance provision of £2m for 2018/19 (and £1.9m for years 2017/18 and 2016/17).	● (green)
Bad debts provision £23,006k	**Impairments against debtor balances** The Council has included a total £23m provision against its debtors for estimated impairment of the balances due. The impairment provision is £23,006k (2018/19), £13,876k (2017/18) and £8,442k (2016/17). A significant proportion of the provision is that relating to the collectability of Mersey Gateway penalty charge notices (PCN's) issued. As at 31 March 2019 the PCN and toll debt was £17.7m of which the Council has provided £11m (or 62%) against the debts.	**Audit Findings** As at 31 December 2019 the level of fines (PCN and tolls) outstanding had risen to £21.9 million and during the period to September 2019 the Council had collected around £2 million out of £16.5 million of PCN debt outstanding at 31 March 2019. On enquiry the Council advised that they consider the older debts are still recoverable and E-Movis continue to engage with debt enforcement agents to recover all aged debt. As the provision as at 31 March 2019 covers 62% of outstanding PCN and toll debts and the Council has subsequently collected £2m in the first 6 month period of 2019/20 we are satisfied that the debt balance is not materially misstated. The rise in outstanding fines is of concern and the Council needs to keep the level of fines under review to update its assessment of the likely collectability of these fines and associated write off.	● (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 judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – £165m net carrying value	Other land and buildings (OLB) 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. The Council use their in-house valuation team to complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis. 11% of total OLB were revalued during 2018/19. The valuation of properties by the valuer has resulted in a net increase of £1.47m.	We examined the estimate, considering; • assessment of management's experts - the 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 Gerald Eve) • reasonableness of the movement in estimate • adequacy of disclosure of estimate in the financial statements **Audit Findings** Procedures to consider the competence and expertise of the valuers has not identified any matters to report to you. As noted earlier on pages 9 and 10 we found that the Council had not complied with the Code requirement to include an analysis of assets shown by year of valuation and has not covered a sufficient proportion of assets held at depreciated replacement cost (DRC) within its recent revaluation cycle. After completing the additional work set out on pages 9 and 10 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 overall. We have however raised a number of recommendations from this work which include the following areas; - Conducting adequate rolling valuations on categories of assets within the cyclical programme - Performing indices reviews at regular intervals to assess the impact of these on the valuation programme and year end values - Ensuring Code requirements are met for any disclosures and valuations.	

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

Accounting area | **Summary of management's policy** | **Audit Comments** | **Assessment**

Net pension liability – £138m

Summary of management's policy

The Council's net pension liability at 31 March 2019 is £138.2m (£98.5m at 31 March 2018) for the Cheshire Local Government defined benefit pension scheme (LGPS) obligations (as reported in the draft financial statements). The Council uses Hymans Robertson 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 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..

Audit Comments

We examined the estimate, considering;

- assessment of management's expert - Hymans Robertson
- 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

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	●

- 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.

See commentary on the amendments to the net pension fund liability on pages 11 and 12.

Assessment

Initial assessment as ●

Following adjustments we have revised to ●

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

Accounting area	Summary of management's policy	Audit Comments	Assessment
Long term investments £23,507k	The Council includes investments in companies on its balance sheet where it has significant influence. The Council includes its share of the equity in the companies based on latest available company accounts.	We examined the judgements applied; considering • completeness and accuracy of the underlying information used to determine the value of the Council's investments in companies • appropriateness of the information • adequacy of the disclosure in the financial statements **Audit Findings** We identified an associate company (Daresbury SIC LLP) in which the Council has a 25% share. The Council had not included the share of its equity in this company in the draft financial statements. In order to determine the value of the investment management have estimated this based on a % share of net assets as shown in the audited accounts of Daresbury. The Council have now updated the Investments (note 22) to include a value of £1,131k.	● (amber)

Assessment

- ● (red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● (amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● (yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● (green) We consider management's process and key assumptions to be reasonable

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	
McCloud pensions ruling 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: • 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. This is a national issue which only crystallised in June 2019 when a further appeal court hearing was rejected.	The Council contacted their actuary (Hymans Robertson) in July 2019 and have been provided with updated Local Government pensions calculations. Actuarial calculations resulted in an increased gross pension liability of £2,661k in respect of the McCloud judgement and an additional £14,206k 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 £16,867k increase in the pension liability. The increase calculated by Hymans Robertson is based on use of the Government Actuary Department (GAD) standard assumptions of 1.5% real pay increases.	**Auditor view** • Management has adjusted for the assessed impact of the legal ruling and revised pension liability figures. The adjustment is included in the Council's summary of corrections attached to this report. We concur with management's decision to adjust for this impact subject to review of assumptions underpinning the estimate. • The assumptions used by Hymans Robertson as the pension scheme actuary have been subject to review by the PSAA consulting actuary along with Grant Thornton experts. The audit team performed a number of follow up procedures based on the output of these reviews. As noted on page 12 we are satisfied with the valuation of the pension fund liability and the revised entries within the financial statements.
Other material amendments to the financial statements (including prior periods) Material amendments and prior period adjustments identified during the course of the audit include: • Mersey Gateway asset and liability • Grants received in advance • Pensions net liability • Depreciation charge	We have summarised the material amendments and prior period adjustments identified as a result of our audit throughout this report. We had extensive discussion with the finance team during the course of the audit to agree the accounting treatment required.	**Auditor view** Management has amended the financial statements for the required changes. This is documented throughout this report. The prior period adjustment note (42) has also now been updated to include the details of all the adjustments made.

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 at this time.
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. We have revisited this area in the light of the Covid 19 pandemic and the Council reassessed its position. Commentary on the pandemic has been reflected in the revised financial statements.

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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Business Efficiency Board. 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	The Council amended the disclosure within its related party transactions (note 13) which now includes disclosures for Merseytravel.
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, including some specific representations discussed with management. We will include the letter of representation in the Business Efficiency Board papers upon completion of the audit. We will draft the final management representation letter on audit closure.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's bank and for year end investments. We received positive confirmations for these.
Disclosures	We found a significant number of areas within the draft financial statements where disclosures were not Code compliant or the information was incorrect. The more significant corrections are set out within this report.
Audit evidence and explanations/significant difficulties	The 2018/19 audit has taken considerably longer than either the finance team or audit team planned for. The underlying cause is the complexity of the accounting treatment related to Mersey Gateway asset and PFI liability. There was initial reluctance from the finance team to revisit the accounting treatment when the auditor raised queries on the basis that the judgements had been reviewed in the prior year. However the underlying operator model had not been provided in the prior year and the model is a key document in determining whether the accounting treatment was correct. Both the specialist management expert and auditor expert agreed the revised accounting treatment which led to many of the adjustments. Once agreement had been reached on the accounting treatment the process of agreeing all amendments was lengthy. There are differences of view between the finance and audit teams over the sequence of events during this process. The finance team feel there was a lack of clarity on what adjustments were required and the audit team consider that some of the revised versions of accounts did not include all expected adjustments which led to subsequent queries from the auditors. The finance and audit team need a clear discussion on the lessons learned from this year's audit process to identify a way forward where the responsibilities of preparers and auditors are clearly understood and to form a joint understanding of how management judgements will be supported, how auditors will challenge those judgements and how resulting adjustments will be processed.

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 (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. We requested an updated version of the Annual Governance Statement to reflect the changes from the delay in the audit. We received an updated version in February 2020. The Council has now put through a number of amendments to the Narrative Report to reflect the material amendments in the financial statements.
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 AGS 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 As noted above we are completing final checks on a final amended version of the AGS. We would expect this however to reflect actions to improve the Council's accounts production process.
Specified procedures for Whole of Government Accounts	We are no longer 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 due to the extended period of the audit. We anticipate certifying the closure of the audit on issue of the audit opinion.
Certification of the closure of the audit	We will not certify completion of the 2018/19 audit until we have resolved outstanding elector queries.

Value for Money

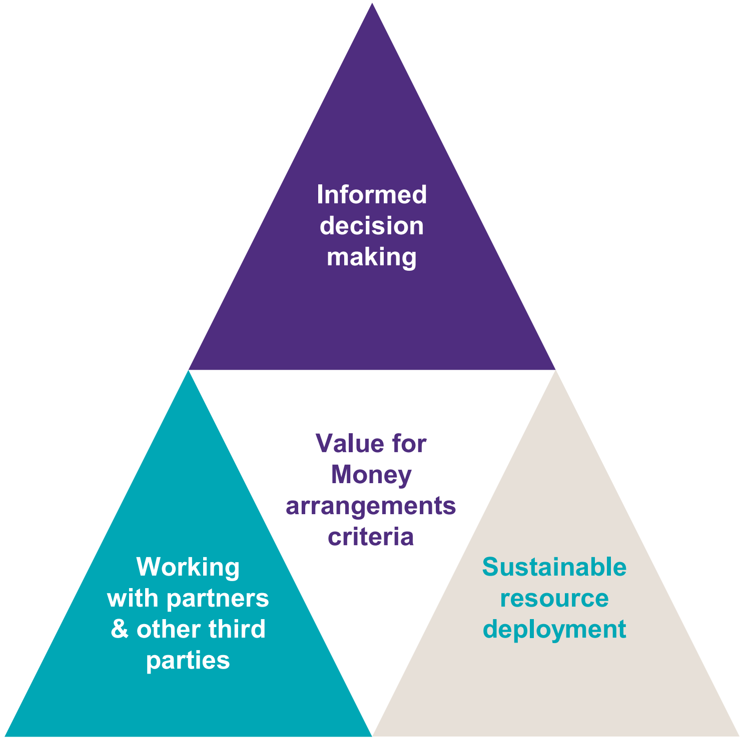
Background to our VFM approach

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 November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in December 2018 and identified a significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated the risk of financial sustainability to you in our Audit Plan dated January 2019.

We have continued our review of relevant documents up to the date of giving our report.

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 revised its MTFS in November 2019 for the period 2020/21 to 2022/23. The updated Strategy required revenue savings of approximately £7.9m, £15.1m and £4.4m over the next three years. As a result the Council reported that it needs to remove £27.4m from its budget by reducing spending or increasing income.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. The results from this work are set out on the following pages.

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 risk 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

We have set out more detail on the risk we identified, the results of the work we performed, and the conclusions we drew from this work on the following page.

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.

Recommendations for improvement

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

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

Significant difficulties in undertaking our work

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

Significant matters discussed with management

In our discussions on your financial position we did not identify significant matters in undertaking our work on your value for money arrangements which we wish to draw to your attention.

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 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's Medium Term Financial Strategy (MTFS) 2019/20 to 2021/22, required the Council to make revenue savings of £9.8m, £8.2m and £3.3m over the next 3 years. This amounts to £21.3m and 19.5% of the net revenue budget and will be a significant challenge in the medium term.	The Council revised its MTFS in November 2019 for the period 2020/21 to 2022/23. The updated Strategy required revenue savings of approximately £7.9m, £15.1m and £4.4m over the next three years. As a result the Council reported that it needs to remove £27.4m from its budget by reducing spending or increasing income. This represents 25% of the Council's net budget and the Council reports that it will be a significant challenge to find sufficient savings over the medium term in order to balance the budget. We recognise there is a risk of not delivering these savings and that it will be critical for the Council to continue to monitor the position robustly. The reported financial outturn position on the Council's budget over the last three years has decreased from an overall overspend in 2016/17 of £0.6m, to a projected overspend position as at March 2020 in the region of £6.1m. The Council's financial equity position however remains sound with the level of reserves sufficient to meet existing needs. The latest version of the 2018/19 financial statements show a total net asset position of £900m and general fund and earmarked reserves of £86.7m. On this basis we propose an unqualified VFM conclusion.	**Auditor view** We are satisfied, on the basis of the areas reviewed, that the Council's arrangements for wider financial management, reporting and budget setting, and its work with partners towards its strategic objectives, are adequate. It will be important for the Council to continue to monitor delivery of savings proposals and take corrective action to help mitigate any future forecast overspend position. An unqualified VFM conclusion is proposed.

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

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	8,500	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 £8,500 in comparison to the planned fee for the audit of £81,076 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.
Silver Jubilee Bridge grant claim (Department for Transport)	2,700	Self-Interest	The level of this fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,700 in comparison to the planned fee for the audit of £81,076 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.
Regional growth fund grant claim 3 Mersey Gateway (Department of Business, Energy and Industrial Strategy)	4,000	Self-Interest	The level of this fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,000 in comparison to the planned fee for the audit of £81,076 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	3,750	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 £3,750 in comparison to the planned fee for the audit of £81,076 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	12,500	CFO Insights	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 planned fee for the audit of £81,076 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.

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.

Action plan

We have identified a number of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 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
●	**The draft financial statements** Our audit identified significant and material amendments required to the Council's 2018/19 financial statements which have also resulted in several prior year adjustments for 2017/18 and 2016/17. The value of the errors arising is at a material level and there were significant other non-trivial errors and required disclosure changes. The audit process was challenging for both the finance team and auditors. The key areas where there were differing views between the finance team and auditors were: • Obtaining a copy of the Mersey Gateway operator's financial model to examine the costs and PFI liability for the construction of the bridge. • The treatment of grants received in advance (GIA) held on the balance sheet. • The liability for pensions unfunded benefits • Agreeing all amendments for the final version of the financial statements.	**R1. Improvements to the preparation of the financial statements** The finance and audit team need to complete a thorough evaluation of the financial statements preparation (including quality control arrangements) and the audit process to identify lessons learned for future years. **Management response** Agreed

Controls

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

Action plan

We have identified a number of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● High	**Grants received in advance (GIA) – (refer to pages 6 to 8)** We identified material errors in the treatment of GIA in the financial statements where the Council had not correctly followed the requirements of the Code. The Council had incorrectly included GIA of £56m (for 2018/19) and £29m for 2017/18) within short and long term liabilities. We found the grant conditions had been fully satisfied and there were no conditions outstanding. The Council had also incorrectly analysed the split of GIA between short and long term liabilities, originally including all capital grants as long term and revenue grants as short term. Full details of the amendments to the 2018/19 and restated 2017/18 financial statements are set out on pages 7 and 8. The risk of incorrect classification of GIA is that the Council fails to recognise grants income in the financial statements when it has satisfied the conditions required for the grant. This therefore affects the entries in the comprehensive income and expenditure statement (CIES) and balance sheet reserves position.	**R2. Treatment of grants received in advance** We recommend that the Council should: • Ensure that it complies with the requirements of Chapter 2.3 of the CIPFA Code (refs 2.3.2.8 and 2.3.2.9) when accounting for government grants The risk in not understanding the Code requirements in this area is that the Council could overstate its liabilities and understate its reserves position, resulting in incorrect financial information. **Management response** Agreed
● Medium	**Related parties disclosures (refer to page 8)** We identified some numerical inaccuracies and the omission of Merseytravel within the Council's related parties disclosures in note 13. We note also that the disclosure is quite extensive and should only reflect related parties where there is control, significant influence and the party is a member of the key management personnel of the reporting entity (Code 3.9.27).	**R3. Related parties** The Council needs to ensure it completes a full assessment of all related parties when compiling its financial statements. It needs to follow the guidance in the Code and only reflect related parties where there is control, significant influence and the party is a member of the key management personnel of the reporting entity (Code 3.9.27). **Management response** Agreed

Controls

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

Action plan

We have identified a number of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 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
●	**Revaluation of non-current assets (refer to pages 9,10 and 16)** We found that the draft accounts submitted for audit did not include the effective date of valuations analysed across each of the preceding financial years to reflect its rolling programme of valuations (in line with the Code requirement in paragraph 4.1.2.3 4). The Council were not aware they had to present this information. Once the Council provided the revaluation analysis this showed that only 10.9% of total other land and buildings (OLB) had been subject to valuation in 2018/19 and that 65% or £107m net book value (out of a total £165m net book value of OLB) had not been revalued since 1 April 2015 (for the 31 March 2016 financial year). This is therefore not in line with the Code requirement that 'for assets that are required to be carried at current value, revaluations must be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the end of the reporting period'. Without covering a sufficient proportion of assets within their rolling valuation programme the Council risks materially misstating the carrying value of non-current assets not subject to in year valuation where there have been movements in current values at the end of the reporting period.	**R4. Valuation of non-current assets** We recommend that the Council should: • Cover a sufficient proportion of categories of assets within the cyclical revaluation programme to give adequate assurance on the current values at the end of each reporting period • Perform indices reviews at regular intervals to assess the impact of these on the valuation programme and year end values • Ensure the financial statements meet all Code requirements for the disclosure of non-current assets **Management response** Agreed
●	**Valuation of pension fund net liabilities (refer to pages 11 and 12)** On examination of the Council's actuarial report provided by Hymans Robertson for the period to 31 March 2019 we noted that there were no unfunded liabilities included in the Council's pension fund valuation. The Council had not included actuarial pension fund liabilities for: • Teaching staff retirements, (pre 1998) £4.1m (2018/19), and restatement for 2017/18 • Teaching staff retirements (post 1998) £2.7m (2018/19) and estimated restatement for 2017/18 • Other local government officers (pre 1998 share) estimated £382k (for 2018/19)	**R5 Net pension fund liability** We recommend the Council: • Obtain annual pension fund valuations from its actuary that include all payments it makes in respect of teachers who have taken early retirement • Obtain sufficient supporting evidence for those local government officers who took retirement prior to 1998 and for which Halton are responsible. • Include all relevant actuarial liabilities in its financial statements. **Management response** The Council will work with Cheshire West and Chester Council to ensure the correct pre 1998 information is included

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

Action plan

We have identified a number of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● (High)	**Valuation of Mersey Gateway infrastructure asset and PFI liability (pages 13 and 14)** We identified significant material amendments to the value of the infrastructure asset and related PFI liability for the Mersey Gateway Bridge which became operational in October 2017 and brought into the 2017/18 financial statements. Full details of the required amendments and restated prior year entries are set out on pages 13 and 14. The significant amendments to the 2018/19 financial statements are: • Change in the valuation of the MG infrastructure asset and related PFI liability £274,231k (restated 2017/18)	**R6 Mersey Gateway asset and liability** In future when considering any complex areas of accounts the Council need to consider: • the extent to which they require management expert advice to ensure the financial statements are soundly based • Use relevant underlying information to construct the entries in the financial statements **Management response** Agreed
● (High)	**Depreciation charged on infrastructure assets (page 15)** The Council applied a single 30 year life (reflecting the tolling period of the bridge) to the whole of the value of the Mersey Gateway Bridge when calculating its depreciation charge. We advised the Council that they should apply the principles of the CIPFA Code (para 4.1.2.43) when calculating its depreciation charge on the Mersey Gateway Bridge. This requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. The Council have now separated the differing components of the Mersey Gateway Bridge using the cost breakdown within the operators financial model and applied different asset lives to each major component. The Council is depreciating the main structural elements over a 120 year life, highways elements over 25 years and other components over 30 years. We also noted that Highways Infrastructure assets were being depreciated over a 15 year life, comparatively low compared to other Councils. The Council have reassessed its Highways depreciation policy on new Infrastructure assets. Full details are set out on page 15.	**R7 Depreciation on infrastructure assets** We recommend the Council: • ensures officers are up to date with the requirements of the Code when applying depreciation to its asset base • apply componentisation on those assets of significant value where there are substantial components with differing lives • examine the appropriateness of its accounting policies on a regular basis to make sure these are robust and approved by the Council. Ensure asset lives are appropriately determined. **Management response** Agreed. Accounting Policies are reviewed on a regular basis and we will consider the appropriate approval process

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

Action plan

We have identified a number of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 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
	Daresbury long term investment (page 20) We identified an associate company (Daresbury SIC LLP) in which the Council has a 25% share. The Council had not included the share of its equity in this company in the draft financial statements. In order to determine the value of the investment management have estimated this based on a % share of net assets as shown in the audited accounts of Daresbury. The Council have now updated the Investments (note 22) to include a value of £1,131k.	**R8 Long term investments in companies** We recommend the Council: • Consider the most appropriate method of valuation in Daresbury LLP for future accounting periods. It needs to assess whether using the net asset base is the most appropriate to adequately reflect the value held within this company. It may need specialist advice on future earnings potential if the company is expanding with expected increased profitability. **Management response** Agreed
	CIPFA Code disclosures (page 16) We found a significant number of areas where the disclosures within the financial statements did not comply with the requirements of the CIPFA Code of practice. In addition the Council did not complete a disclosure checklist as part of its closedown procedures.	**R9 CIPFA Code of Practice** The Council need to ensure that its draft financial statements provided for audit are completed fully in line with the requirements of the CIPFA Code. We recommend the Council completes the CIPFA Code disclosure checklist and incorporates this process within its closedown timetable. Rigorous review by senior officers is then needed to ensure the financial statements are Code compliant. **Management response** Agreed
	Collectability of debt for Mersey Gateway fines (page 17) A significant proportion of the bad debt provision is that relating to the collectability of Mersey Gateway penalty charge notices (PCN's) issued. As at 31 March 2019 the PCN and toll debt was £17.7m of which the Council have provided £11m (or 62%) against the debts. We found this debt continues to rise with low levels of collection of older debt. As at 31 December 2019 the level of fines (PCN and tolls) outstanding have risen to £21.9m and during the period to September 2019 the Council had collected around £2m out of £16.5m of PCN debt outstanding at 31 March 2019.	**R10 Mersey Gateway debts** We recommend the Council works closely with the Mersey Gateway Crossings Board to examine the levels and age of debt. **Management response** Agreed

Controls

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

Action plan (continued)

Assessment	Issue and risk	Recommendations
● Medium	**Debtor and Creditor General Ledger (GL) Code analyses (page 16)** On examination and testing of year end debtor and creditor balances we noted that the Council has not reconciled the net balance on the GL codes to its year end listing of debtors and creditors. The analyses provided for us to sample test were made up of all movements on the ledger code during the period. The risk is that the GL codes could contain a number of errors that are continually carried forward without clearing and agreeing the movements to the year end balance position.	**R11 Debtor and creditor general ledger code reconciliations** The Council need to examine the entries within the debtor and creditor ledger codes to ensure these reconcile to the year end debtor and creditor balances. **Management response** Agreed
● Medium	**Compilation of the cashflow statement (page 16)** On checking the cashflow statement we identified a compilation error of £67.5m where the pre-payment to the PFI Operator had been incorrectly included under investing activities rather than financing activities. There were other amendments processed for the prior year and in year adjustments made to the other core statement affecting the cashflow entries. We received a number of versions of the cashflow statement for ongoing audit checking.	**R12 Cashflow statement** The Council need to ensure it has a thorough process in place for compiling the cashflow statement in line with Code guidance. Any audit amendments need a detailed check by the finance team before being returned as a final document. **Management response** Agreed
● Medium	**Compilation of the Expenditure and Funding Analysis (EFA) (page 16)** On checking the EFA (note 1) we found this didn't fully comply with Code disclosures to: • explain material reconciling items in the adjustments column (Code para 3.4.2.100) • show revenues from external customers on a segmental basis (Code para 3.4.2.101) Also the Council made other compilation amendments, including correcting column headings in the adjustments note (to show this as other adjustments), include the reserves adjustment in the EFA and correct the surplus deficit figure.	**R13 Expenditure and Funding analysis (note 1)** The Council needs to ensure the compilation of the EFA follows the requirements of the Code and is thoroughly checked prior to sending for audit. **Management response** Agreed

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 misstatements

There are a considerable number of adjustments made to the 2018/19 accounts and prior years 2017/18 and 2016/17. These are summarised in detail in Annex 1.

This includes the impact on the key statements and the reported net expenditure for the year ending 31 March 2019 and prior years.

Misclassification and disclosure changes

There are extensive changes made to the disclosures in the accounts as set out in detail in the Council's schedule of amendments. The table below captures the main changes in summary.

Disclosure change	Detail	Auditor recommendations	Adjusted?
Narrative Report	Updated throughout to reflect changes to the amended accounts	n/a	✓
CIES, Balance Sheet, MIRs, Cashflow	Changes to all key statements as noted in the detail in Annex 1. These also include reference to restated figures in prior years, including a restated third balance sheet for 2016/17 and correction of old terminology.	See various detailed recommendations raised	✓
Notes to the core statements	Added reference to accounting policies being at the back of the statements of accounts	See Rec 11 these are better shown within the core statements	✓
Expenditure and Funding Analysis (notes 1 and 2)	Format changed and restated figures in line with changes to other core statements. Revised narrative in the notes.	See Rec 14 to follow the Code requirements	✓
Financing and Investment Income and expenditure (note 4)	Restated figures for 2018/19 and 2017/18 as detailed	-	✓
Tax and non specific grant income (note 5)	Restated figures for 2018/19 and 2017/18 as detailed	-	✓

Audit Adjustments (continued)

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

Misclassification and disclosure changes

There are extensive changes made to the disclosures in the accounts as set out in detail in the Council's schedule of amendments. The table below captures the main changes in summary.

Disclosure change	Detail	Auditor recommendations	Adjusted?
Grant income (note 7)	Restated figures for years 2018/19, 2017/18 and 2016/17 in line with changes outlined in treatment to bring this in line with the Code.	See Rec 2 on treatment of GIA in line with the Code	✓
Related party transactions (note 13)	Corrections of inaccuracies in the disclosure.	See Rec 3	✓
Events after the Balance Sheet date (note 15)	The Council has added disclosures for Halton Borough Transport and the impact of Covid-19 into the narrative	-	✓
Capital expenditure and financing (note 16)	Restated figures for 2018/19 and 2017/18 in line with other amendments	-	✓
Non-current assets PPE (note 17)	Restated figures in line with other significant amendments. Also changes in depreciation policy for infrastructure assets. Added details of asset valuations by years in line with Code requirements.	See Recs 4/6/7	✓
Heritage assets (note 18)	Added further detail in line with Code requirements	See Rec 9	✓
Investments (note 22)	Included the Councils investment in Daresbury, previously omitted	See Rec 8	✓
Debtors (note 23)	Restatement of short term debtors for 2018/19, 2017/18 and 2016/17 in line with other amendments	-	✓
Creditors (note 25)	Restated figures for 2018/19 and 2017/18 as detailed	-	✓

Audit Adjustments (continued)

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

Misclassification and disclosure changes

There are extensive changes made to the disclosures in the accounts as set out in detail in the Council's schedule of amendments. The table below captures the main changes in summary.

Disclosure change	Detail	Auditor recommendations	Adjusted?
Provisions (note 27)	Included a provision for insurance for 2018/19 and restated 2017/18 as shown. Reclassified £2,324k of the NNDR provision as long term.	-	✓
Other long term liabilities (note 29)	Amendments to the defined pensions liability and the Mersey Gateway Unitary charge for 2018/19 and 2017/18 in line with other amendments made.	See Recs 5 and 6	✓
Leases (note 30)	Amendments made to the details of finance leases as detailed.	-	✓
Private Finance Initiatives and Similar schemes (note 31)	Restated figures for 2018/19 and 2017/18 in line with other amendments for the MG PFI scheme.	See Rec 6	✓
Pension schemes (note 32)	Restated figures for 2018/19 and 2017/18 in line with other pension scheme amendments.	See Rec 5	✓
Financial Instrument (note 33)	Amendments to the disclosure in the note in line with other changes and Code requirements.	See Rec 9	✓
Adjustments between accounting basis and funding basis (note 34)	Restated disclosures for 2018/19 and 2017/18 in line with other amendments to the accounts.	-	✓
Useable Reserves (note 35) Transfers to Earmarked reserves (note 36) and Unusable reserves (note 37)	Restated notes to show reserves for 2018/19 and prior years in line with other accounts amendments.	-	✓

Audit Adjustments (continued)

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

Misclassification and disclosure changes

There are extensive changes made to the disclosures in the accounts as set out in detail in the Council's schedule of amendments. The table below captures the main changes in summary.

Disclosure change	Detail	Auditor recommendations	Adjusted?
Cashflow (notes 38 to 40)	Restated disclosures for 2018/19 and 2017/18 in line with other amendments to the accounts.	See Rec 13 compilation of the cashflow	✓
Interest in Companies (note 41)	Inclusion of Daresbury	See Rec 8	✓
Prior period adjustments (note 42)	The note has been rewritten to include all the details of the prior period adjustments made throughout the financial statements.	See Rec 1	✓
Collection fund	Updated to reflect changes as detailed	-	✓
Statement of accounting policies	Some narrative changes to the disclosures to reflect up to date policies in line with amendments made throughout the financial statements.	-	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Business Efficiency Board is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £	Statement of Financial Position £	Impact on total net expenditure £	Reason for not adjusting
Pension fund liability: non teaching staff retirees pre 1998 (see page 12)				
Unusable reserves – pension reserve		Dr 382,000		This is an estimated figure which the Council need to accurately confirm in future with its actuary.
Pension liability (LT)		Cr 382,000		
Overall impact	**£0**	**£0**		

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit *	£81,076	tbc
Total audit fees (excluding VAT)	**£81,076**	**tbc**

- As noted throughout this report we have incurred significant additional audit time extended through June 2019 to August 2020. The final audit fee will be significantly higher than the standard scale fee for this audit. We are planning to issue an interim additional fee of £47k followed by a further final fee of £20k on closure.
- 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 £'000
Audit related services: • Certification of Housing Subsidy Grant claim	8,500
Silver jubilee bridge grant claim (Department for Transport)	2,700
Regional growth fund grant claim 3 Mersey Gateway (Department of Business, Energy and Industrial Strategy)	4,000
Teachers Pension Return	3,750
Non-audit services • CFO Insights	12,500
Total non-audit fees (excluding VAT)	**£31,450**

grantthornton.co.uk