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The Audit Findings Report (ISA260) for Halton Borough Council

Year ended 31 March 2020

24 March 2021

Contents

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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 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. Areas of Halton have endured a high transmission rate of the Covid-19 pandemic and the Council has responded by diverting staff towards dealing with front line services such as responding to residents with adult and social care needs. There have been significant financial challenges as the Council responded to the COVID-19 pandemic through additional costs to support operational services, lost income through reduced trading activity and some cessation of services. In addition, council tax payments and business rates payments reduced as lock down started, businesses closed, and staff furloughed. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and an extended target date for audited financials statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and our Audit Plan included a financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 6. Restrictions for non-essential travel has meant both Council finance staff and audit staff have had to work remotely throughout the period of the year end audit which created audit challenges such as remotely accessing financial systems, video calling, physical verification of assets and ensuring the completeness and accuracy of information produced by the entity. Management published their draft financial statements and Annual Governance Statement on 28 August 2020 therefore achieving the MHCLG target deadline for draft accounts to audit. Working papers to support the financial statements followed promptly. The conclusion of the audit has overshot the target date of 28 November 2020 due to delays caused by the late completion of the 2018/19 audit arising from amendments to the draft accounts, plus the impact of Covid-19 upon the audit process.
Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements: • give a true and fair view of the financial position of the Council and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed remotely during October 2020 to March 2021. Our findings are summarised on pages 5 to 17. We have identified a number of adjustments to the financial statements which are detailed in Appendix C. The adjustments so not impact the Council's General Fund. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (which is presented separately to the Business Efficiency Board), or material changes to the financial statements, subject to the following outstanding matters: • completion of a small number of audit procedure steps including sample item evidence for land and buildings valuation, debtors and creditors and a small number of other areas • completion of our Whole of Government Accounts review • final audit quality review processes and housekeeping processes, including review of the final set of financial statements • confirmations regarding any post balance sheet events • receipt of management representation letter (presented separately to the Business Efficiency Board).

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Headlines (continued)

Financial statements (continued)		We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. Our anticipated audit report opinion will be unmodified including an Emphasis of Matter paragraph, highlighting the material uncertainty that exists regarding the valuation of Council land, buildings and investment property, and in relation to property investments of the Cheshire Local Government Pension Fund. These uncertainties reflect the market conditions arising from the Covid-19 pandemic. We were unable to provide our audit opinion by the deadline of 30 November 2020 due to delays in completing the 2018/19 audit (concluded 23 December 2020) and the additional time required to conduct the audit remotely and meeting via video link.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Halton Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore anticipate issuing an unqualified value for money conclusion within our Audit Opinion. Our findings are summarised on pages 18 to 22.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

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

Audit approach

Overview of the scope of our audit

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved (listed on page three of this report), we anticipate issuing an unqualified audit opinion following the Business Efficiency Board meeting on 24 March 2021

Our approach to materiality

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

Materiality levels remain the same as reported in our Audit Plan.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	5,421,000	This equates to 1.5% of the previous year's gross cost of services expenditure and is considered to be the level above which the users of the accounts would wish to be aware of any misstatement
Performance materiality	3,472,000	Assessed at 65% of financial statements materiality
Trivial matters	271,000	Assessed at 5% of Authority financial statements materiality
Materiality for Senior Officer's Emoluments section of Note 10	25,000	This item merits a lower materiality than financial statement level materiality due to being of particular interest to the public

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid–19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, and one of the most significant assessed risks of material misstatement.	In response to the risk identified we: • worked with management to understand the implications the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 28 August 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert and pension fund actuary; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; and • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment. The results of our work concluded that appropriate arrangements have been put in place to manage the impact of Covid-19. We have noted that the Council valuer has reported a material uncertainty within their report as a result of the impact of the global pandemic. The uncertainty has been reflected by management within the Council financial statements, in line with our expectations. Management have also agreed to include a material uncertainty in relation to the net Local Government Pension liability as a result of uncertainty around the valuation of the Council's share of the pension property assets of Cheshire Pension Fund. Both of these material uncertainties will be referenced in the audit report as an 'emphasis of matter' paragraph. This is not a modification or qualification and is reflective of the auditor drawing attention to a disclosure within the financial statements that we believe is of significant importance. We have not identified any further material uncertainties in relation to Covid-19 that would result in a material misstatement of the financial statements.

Significant audit risks (continued)

Risks identified in our Audit Plan	Auditor commentary
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we determined at the planning stage 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	The presumed risk was rebutted at the planning stage of the audit for the reasons given. We reviewed our rebuttal of this risk during the final accounts audit and concluded our assessment as detailed in the Audit Plan was still appropriate. Whilst not a significant risk we have performed audit procedures and testing of material revenue items. Our work did not identify any matters that would lead to a change in our risk assessment.
Management over-ride of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority 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.	We have undertaken the following procedures in relation to this risk: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk or unusual journals • tested high risk and unusual journals recorded for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for changes in accounting policies, estimates or significant unusual transactions. We are currently finalising our work in this area but our audit work so far has not identified any issues in respect of management override of controls which we wish to bring to your attention. We will update the Business Efficiency Board with our conclusions.

Significant audit risks (continued)

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings The Authority 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 2019/20 include £864.6m net book value of property, plant and equipment (PPE), of which £206.5m is in respect of land and buildings. Additionally, management need to ensure the carrying value in the Authority'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 the valuation of land and buildings, particularly revaluations and impairments, as a significant risk. This is one of the most significant assessed risks of material misstatement.	In response to this risk we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the internal and external valuer to confirm the basis on which the valuation was carried out • challenged the information and assumptions used by the valuers 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. During the audit we identified that the school valuation process adopted by management was not consistent with the requirements of the Code of Practice as it was based upon an extrapolation from a sample of assets. Management subsequently engaged their external valuation expert to undertake 100% of the schools valuation. The revised valuation identified a reduction in the valuation of schools of £8.1m. Management have adjusted the financial statements to correct for this as detailed in Appendix C. Further detail can also be found on page 12. Accounting Policy note 30 (a) (Assumptions made about the future and other major sources of estimation uncertainty) to the financial statements, discloses that in applying the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards 2020 ('Red Book'), both the Council's internal and external valuer have declared a "material estimation uncertainty" in their valuation reports. This is on the basis of uncertainties in markets caused by Covid-19. The values in the valuation reports have been used to inform the measurement of property assets at valuation in the financial statements. Having declared this material valuation uncertainty, the valuers have continued to exercise professional judgement in providing the valuation and management believes this remains the best information available to the Authority. Due to the uncertainty, we intend to include an emphasis of matter in our audit report regarding the "material estimation uncertainty" that is reported in note 30 (a). Audit procedures identified a matter regarding depreciation charges being applied to some fully depreciated assets. Management has agreed to revisit their accounting treatment for depreciation charged on these assets that remained in use but were fully depreciated. This resulted in useful economic lives of these assets being revisited and updated in the fixed asset register with an adjustment to be confirmed regarding the charge to the revaluation reserve before transfer to the Capital Adjustment Account as set out in Note 17 (Unusable Reserves). The corresponding amendment is reported at Appendix C. We will update the Business Efficiency Board with our conclusions and any amendments required to the draft financial statements. Audit procedures also identified a surplus land asset on the balance sheet valued at £307k which had been previously disposed of. Management have not adjusted the financial statements to correct for this error on the basis that it is not material. We have included the proposed adjustment in the listing of unadjusted misstatements at Appendix C and have requested a specific representation on this matter within the letter of representation. Subject to resolution of the matters raised above, there are no further matters we wish to bring to your attention regarding the valuation of land and buildings on the Council's balance sheet.

Significant audit risks (continued)

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability The Authority'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 (£65m in the Authority's 2019/20 draft balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's net pension fund liability as a significant risk, This was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • evaluating the accounting policy for the Authority's membership of the Cheshire Pension Fund for appropriateness and compliance with the Code of Practice for Local Authority Accounting 2019/20 • gaining an understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability was not materially misstated and evaluating the design of the associated controls • assessing the competence, capabilities and objectivity of the actuary (Hymans Robertson LLP) who carried out the pension fund valuation • testing the Authority's membership information provided by Cheshire Pension Fund to the scheme actuary to the underlying records • testing 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 • engaging with the auditors of Cheshire Pension Fund to identify, document and evaluate the procedures and controls used by Cheshire Pension Fund to establish the accuracy and completeness of the source data, and over the provision of this source data, to the actuary for the purposes of preparing the triennial valuation, updating our understanding of the Authority's agreement with Cheshire Pension Fund • evaluating the instructions issued by management to their management expert (an actuary) for these estimates and the scope of the actuary's work: and • assessing the accuracy and completeness of the information provided to the actuary to estimate the liability The auditor of Cheshire Pension Fund included an emphasis of matter paragraph in their audit report to reflect the "material estimation uncertainty" that exists in the Fund's property investment portfolio due to Covid-19. Management at the Council updated their accounting policy note (in Accounting Policy note 30 (b) (Assumptions made about the future and other major sources of estimation uncertainty) to the financial statements to make reference to this uncertainty and given the unknown impact on the valuation, we intend to include an emphasis of matter in our audit report. There are no further matters we wish to bring to your attention regarding the valuation of the net pension liability on the Council's balance sheet. Based on the procedures completed as above, we have gained assurance that the net pension liability is fairly stated.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
PFI accounting for the Mersey Gateway Bridge 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 Ltd. The 2018/19 audit identified material errors arising from the assumptions used by management in the valuation and depreciation of the Bridge, and the calculation of the matching PFI liability. Management have agreed that the related balances should agree to the Operator's PFI Financial Model. Whilst we are satisfied that management are now aware of the proper accounting treatment, we have identified the accounting for the Mersey Gateway Bridge as an other audit risk due to the high values involved.	We have performed the following work in response to the identified risk: • ensured that the balances relating to the Mersey Gateway Bridge are supported by the PFI operators model and relevant underlying information • ensured that the valuation of the Mersey Gateway Bridge is properly valued as an infrastructure asset at cost • ensured that depreciation is charged accurately on a componentised basis We noted that the PFI future payment tables for services schedule in note 31 had not been updated for RPI inflation which is inconsistent with the PFI operator model. This is a disclosure matter with no cost implication for the 2019/20 Comprehensive Income and Expenditure Statement or Balance Sheet. See Recommendation 4 at Appendix A. We ,are awaiting final responses from our specialist PFI audit team but subject to receiving this, we are satisfied that PFI accounting for the Mersey Gateway Bridge now meets the requirements of the Code of Practice and the 2019/20 unitary charge is correctly reported. We will update the Business Efficiency Board once our work in this area is complete.
Penalty Charge Notice (PCN) bad debt provision A significant proportion of the Authority's bad debt provision relates to the collectability of Mersey Gateway Bridge PCNs. At 31 March 2019 the PCN and Toll debt was £17.7m against which the Council has provided £11m (62%). Indications show that the level of PCN debt continues to rise and the collection rates are low. There is therefore a risk that the older debt in particular is uncollectable.	We have performed the following work in response to the identified risk: • reviewed the level of PCN and Toll debt at 31 March 2020 and management's assumptions regarding collectability in arriving at the bad debt provision • reviewed management's process for identifying and writing out uncollectable Toll and PCN debt At 31 March 2020 PCN and Toll debt was £25.57m, against which the Council had provided £22.79m leaving a net debtor of £2.78m. 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. Given that 89% of the debtor is now provided for and the residual assessed by management for collectability, we are satisfied that management has prudently calculated the expected recovery of PCN and toll debt in the 2019/20 financial statements.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for NNDR appeals £6.701m (2018/19 £5.409m)	**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 £6.701m (£5,409k in 2018/19).	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 We were satisfied with the methodology for the calculation of the provision.	● Green
Insurance provision £1.599m (2018/19 £2.044m)	**Insurance provision** The Council has a number of outstanding insurance claims relating to employers liability and public liability claims as at 31 March 2020.	The Council had not included any new provision for the potential cost to them in settling any outstanding insurance claims. Running alongside the provision, the Council has an Insurance General Fund Reserve to fund possible insurance claims, which has increased by £0.445m during the year to reflect the assessed liability. We were satisfied that the insurance liability is within an acceptable range and unlikely to be materially misstated.	● Green

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings Other - £206.4m (2018/19 £164.8m)	Other land and buildings in the draft accounts comprised approximately £155m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (approximately £51.4m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Sanderson Wetherall to complete the valuation of the majority of property as at 31 March 2020 with the remaining property within the valuation cycle valued by the Council's Internal valuer. 86% of total Land and Buildings assets were revalued during 2019/20, following the updated schools valuations. In line with RICS guidance, the Council's valuers disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Accounting Policy note 30(a). The valuation of land and buildings undertaken by the valuer has contributed to a net increase of £48m. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets not revalued during 2019/20 to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the value of these properties. Following the correction of the schools revaluation error, the total year end valuation of Other land and buildings was £206m, a net increase of £42m from 2018/19 (£164m).	• The Council engaged an external valuer (Sanderson Wetherall) to support the internal valuer for the first time during 2019/20 • We have assessed the Council's external valuer, Sanderson Wetherall and the Council's internal valuer, to be competent, capable and objective • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate, including floor areas and subject to the matters raised below and on page 8, we are satisfied with management's estimates and judgements in this area • During the audit we identified that the schools revaluation increase of approximately £2.1m was calculated by an extrapolated value based upon a sample of four out of 40 schools. Extrapolation of valuation is not an appropriate approach and a sample method to revalue assets does not comply with the Code of Practice requirements to revalue a class of assets • The Council subsequently engaged their valuation expert, Sanderson Wetherall to revalue all schools as at 31 March 2020. This resulted in a revaluation decrease of £6m. The financial statements were amended by £8.1m to correct the error as reported in Appendix C • Management also included the majority of their original school revaluation uplift against a single row in the fixed asset register. Revaluation movements should be posted against individual assets, which was subsequently undertaken using the Sanderson Wetherall revaluations • In relation to assets not revalued in the year, we have used comparison with the auditor's Gerald Eve (valuation specialists) report. We have also challenged the Council's valuation specialist on valuation differences identified through our sensitivity analysis work using other indices. Explanations have been provided by management to support the audit queries raised and we have no matters to raise regarding assets not revalued in year • Overall this key estimate of valuation includes a material uncertainty as at 31 March 2020 and we concur with that conclusion. We have referred to the uncertainty by way of an emphasis of matter in the audit opinion • Overall we are satisfied the Council's land and buildings are not materially misstated. The accounting policy is adequately disclosed including the material uncertainty attached to the valuations of land and buildings as at 31 March 2020. • As a result, an emphasis of matter paragraph on land and buildings valuations as at 31 March 2020 will be reported within our audit opinion	Green

Public

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Significant findings – key estimates and judgements

Accounting area | **Summary of management's policy** | **Auditor commentary** | **Assessment**

Net pension liability – £65.4m (2018/19 - £161.8m)

Summary of management's policy

The Council's net pension liability at 31 March 2020 is £65.4m (PY £162m) comprising the Cheshire Local Government defined benefit Local Government pension scheme. 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 Council's actuary disclosed a material uncertainty in the valuation of the Council's pension fund liability at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 30(b).

The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £96.4m net actuarial gain during 2019/20. This has been largely due to the improved actuarial assumptions and an "Experience Gain" of £37m relating to the latest full actuarial valuation data and assumptions.

Auditor commentary

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
- completeness and accuracy of the underlying information used to determine the estimate
- impact of any changes to valuation method
- reasonableness of the Council's share of LGPS pension assets
- reasonableness of movement in estimate
- adequacy of disclosure of estimate in the financial statements

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.3%	2.3%	
Pension increase rate	1.9%	1.9% - 2.1%	
Salary growth	2.6%	3% - 3.6%	
Life expectancy – Males currently aged 45 / 65	21.9 years 21.2 years	21.6 – 23.3 years 20.5 – 22.2 years	
Life expectancy – Females currently aged 45 / 65	25 years 23.6 years	24.6 – 26.3 years 22.9 -24.3 years	

See commentary on the amendments to the net pension fund liability on page 9.

We are satisfied that management's process for producing this estimate is sufficiently robust. However, per communications with the auditors of Cheshire Pension Fund we note that they included an emphasis of matter in their audit opinion in relation to property investments held by the Fund. We will include an emphasis of matter in our audit report to that effect. Our opinion is not modified as a result of this.

Assessment

Green

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	Auditor commentary
Halton Borough Transport On 24 January 2020 the Council's subsidiary, Halton Borough Transport (HBT) ceased trading and a liquidator was appointed. The remaining value of the share capital was charged as a loss to the 2019/20 Comprehensive Income and Expenditure Statement (£430k), thereby removing the Council's investment in the subsidiary from its Balance Sheet.	We are content with the Council's narrative explanation and treatment in the financial statements of the transactions relating to the winding up of Halton Borough Transport. We did however challenge management regarding the value of the subsidiary within the group boundary. We have agreed with management's assessment that although the Halton Borough Transport Income and Expenditure position was material for consolidation purposes, there were intra-group transactions which brought the subsidiary below the materiality level for consolidation and production of Group Accounts.

Significant findings – going concern

Our responsibility

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

Going concern commentary	Auditor commentary
Management's assessment process In assessing its going concern position, management look ahead twelve months from its reporting date and have regard to its future cash flow position including whether current spending is in accordance with budget. Management's assessment is that there is no reason to consider the Council is at risk of not being a going concern.	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.	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. As set out in the VFM conclusion section of this report, the Council's original Medium Term Financial Strategy covering the three year period 2021-24 identifies budget shortfalls of £14.8m to £3.8 m across the period. This has since been updated as agreed by full Council Meeting on 3 March 2021 when a balanced revenue net budget of £111.4m was agreed for 2021/22. Management are mindful of the future uncertainty around the local government funding regime, public spending reviews and the impact of Covid-19 when setting their budget and recognise that the Council cannot continue to rely upon reserves to address budget deficits, however this itself does not pose a going concern risk for the 2019/20 financial statements. Management agreed to include a going concern disclosure note within the accounting policies, to explain that the accounts are prepared on a going concern basis.
Concluding comments	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 and a balanced budget has been set for 2020/21.

Other matters for communication

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

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Business Efficiency Board. We have not been made aware of any incidents in the period relevant to our audit and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. We have recommended that management review their processes to disclose related party transactions so as to report only those related parties where the Council exercises control.
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 specific representations in respect of the Group, which is included in the Business Efficiency Board papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banks and investment counterparties. This permission was granted and the confirmations have been received.
Disclosures	Our review found no material omissions in the financial statements. Disclosure omissions raised during the audit are summarised at Appendix C.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided. We have no significant difficulties to report in conducting the audit and management provided full cooperation.

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Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), are materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No material inconsistencies have been identified and we plan to issue an unmodified opinion in this respect – refer to appendix E. Management agreed to some presentational amendments to Annual Governance Statement and Narrative Report which are reported in Appendix C.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is not yet completed.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Halton Council following completion of the specified procedures for Whole of Government Accounts.

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Value for Money

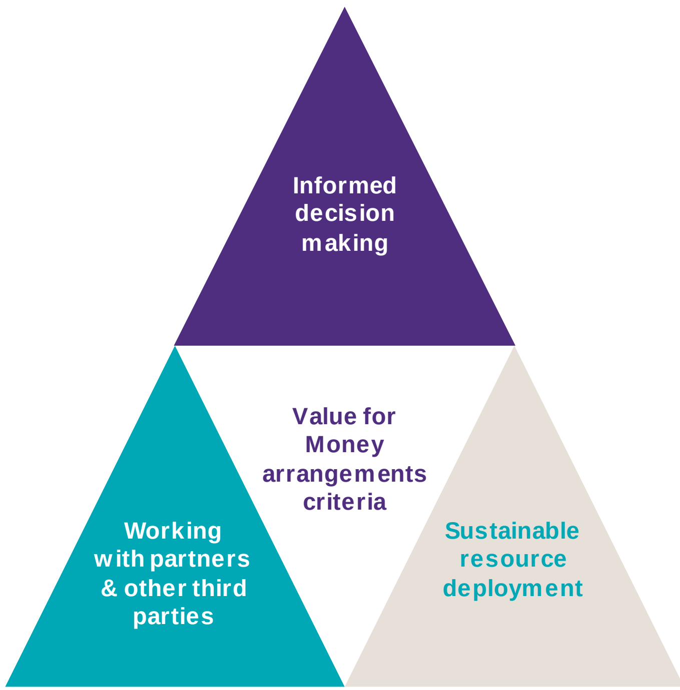
Background to our VFM approach

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

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

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

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



Risk assessment

We carried out an initial risk assessment in September 2020 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated September 2020.

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

We have not identified any new VfM risks in relation to Covid-19 and we do not consider Covid-19 to be a significant risk given the pandemic and lockdown commenced at the end of the 2019/20 financial year. We are satisfied with management's arrangements for managing the Council's response to the pandemic. The financial implications are addressed on the following pages.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Financial sustainability – the Authority as with other authorities, continues to operate under significant financial pressures and achieving the set budget was considered a key risk
- Informed decision making – the 2018/19 audit identified a number of material errors in the draft accounts and areas where the accounts were not in compliance with the Code of Practice. We have reviewed management's arrangements to deliver improvements in financial reporting in production of the 2019/20 financial statements

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 21 to 23.

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. The Council, however forecasts continued overspends in social care meaning that a deficit medium term financial plan was originally approved by Members with a £14.8m budget gap for 2021/22. This was revised when the Council Meeting on 3 March 2021 set a balanced budget position for 2020/21, achieved through agreed efficiency savings, additional government grant, available reserves, increase to council tax and a review of cost pressures.

Whilst we recognise that management are prudent in assessing the future financial settlements and government support through the Covid pandemic, action should be taken to address the reliance upon reserves in the medium term and to control the overspends experienced in adult services. Halton is not alone in facing these pressures.

The draft accounts and working papers were provided by management for audit to the agreed timeline and the draft accounts were of a good standard, reflecting the efforts made by management to raise the financial reporting standard.

The text of our report, which confirms this can be found at Appendix E.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Value for Money

Key findings

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

Significant risk	Findings	Conclusion
Financial Sustainability At the time of planning the audit, the Council's financial position remains challenging with continued reductions to Government funding and 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. Covid-19 pressures have emerged subsequently. Our response to the risk was to continue to review budget monitoring reports and updates to the MTFS and to discuss with officers their plans to address future potential budget gaps. We also assessed how the Council is identifying, managing and monitoring financial risks, including the impact of Covid-19 on forecast income.	In March 2019 the Council agreed a net revenue budget for 2019/20 of £108.6 million. During the year, the Council recognised additional pressures particularly additional demand within Children's and Adult Social Care and forecast an overspend of up to £6.8 million. Corrective action however reduced the year end outturn to £113.9 million, being £5.3 million above budget. 2019/20 is the fourth consecutive year that an overspend against budget has been reported. The increase in social care costs is primarily demand led, with additional pressures emerging from the onset of the Covid-19 pandemic in March 2020. This overspend was met through £4.3 million transfer from the earmarked Business Rate Retention Reserve and the balance from the General Reserve. Since the creation of the Liverpool City Region (LCR) Business Rate Retention Pilot, this has been a reliable source of deficit funding to the Council although cannot be relied upon indefinitely. At 31 March 2020 the General Reserve was £4.002 million, a reduction of £0.997 million from the start of the year. Detailed financial monitoring reports are provided quarterly to Members and the Council's management team and these provide sufficient detail and analysis to provide oversight of the financial position. The Council's capital expenditure plan for 2019/20 was £45.584 million with actual expenditure being £43.341 million, an underspend of £2.243 million. The Council's Treasury Management remains strong, with no additional borrowing taken during 2019/20. At 31 March 2020 the Council has borrowed £172 million which is comfortably below the prudential borrowing limit of £240 million. £142 million of the Council's borrowing related to the Council's contribution to the Mersey Gateway Bridge. The Council's cash balances (including deposits under three months) have risen to £22.9 million from £18 million at the start of the year.	The Council operates under significant financial pressures, however, it continues to have effective arrangements in place to routinely monitor its budget and take appropriate action to mitigate against any significant variances or additional calls on resources. Covid-19 has had a significant impact on the Council from mid March 2020, with additional costs to support operational services, lost income, and implications of potential reduced council tax and business rates payments. For the majority of 2019/20 the Covid-19 impact was limited given it commenced during March 2020. The expenditure impact for 2020/21 has been estimated by the Council at £26.5 million before contributions from central government grant and CCG partners. The adult social care additional cost is estimated at £15.5m before the 45% contribution by CCGs. Not all of the residual cost is met by government support. As well as expenditure pressures in 2020/21, Covid-19 has led to a drop in income across business rates, Council tax receipts and other fees and charges. Again these are not fully met by government support. The 2020/21 Q3 budget report shows an overspend of £1.18 million against the revised annual General Fund revenue budget of £121.7 million. Within the overspend, net costs and loss of income associated with Covid-19 is forecast adds a budget pressure of £2.2 million which is partly offset by savings and efficiencies in other operational areas. The Council continues to effectively manage its financial position and is dealing with the impact of Covid-19. The Council has not had to contemplate an emergency budget to offset the impact of Covid-19 and has plans in place to deal with the expected cost of Covid-19.

Value for Money

Significant risk	Findings	Conclusion
Financial Sustainability Continued	The Council updated its Medium Term Financial Strategy (MTFS) in March 2020 covering the three year period 2021-24. This identified budget shortfalls of £14.8 million to £3.8 million across the period. This reflects the future uncertainty around the local government funding regime, public spending reviews and the impact of Covid-19. A revised MTFS and 2021/22 budget was agreed by Council February 2021 and set a balanced budget of £111.446 million for 2021/22, including itemised savings of £1.369m and without recourse to funding from General Fund Reserves. The revised budget reflects the updated costs and funding associated with Covid-19 and does not assume future government funding beyond a prudent level. However it is recognised that due to service pressures and funding cuts, budget gaps exist in the medium term. The continued overspends in social care were a key factor in arriving at the forecast budget shortfalls in the original medium term when arriving at the £14.8 million budget gap for 2021/22, and pressures in these areas remain. Whilst we recognise that management are prudent in assessing the future financial settlements and government support through the Covid pandemic, action should be taken to address the reliance upon reserves in the medium term and to control the overspends experienced in adult services. Halton is not alone in facing these pressures. The financial forecast has been eased with the government's announcement that 75% of collection fund losses will be funded centrally, with residual losses being spread across three years rather than just one. The financial impact of Covid-19 was felt from March 2020 although the government has committed to meeting the majority of Council's Covid-19 costs. At 31 March 2020 the Council had received several tranches of government funding to address the impact of the Covid-19 pandemic including £4.337 million non-ringfenced grant for general pressures which is largely allocated to Adult Social Care. Additional business rate reliefs implemented as a result of the pandemic will be fully funded from Government, to date a figure of £13.945m has been claimed. The Council requires further resources to deal with the pandemic and has itemised this in the monthly Covid-19 return to MHCLG. At January 2021 the Council had received £12.8 million general non-ringfenced funding allocation out of the governments overall £4.6 billion support package.	We therefore concluded that there are appropriate arrangements in place for sustainable resource deployment. This supports our proposed 'clean' unqualified VFM conclusion. However, despite the balanced budget set in February 2021 for 2021/22, the ongoing reliance upon reserves to meet medium term budget shortfalls, and escalating adult care costs is not sustainable in the medium term and must be addressed by the Council alongside the enhancements in the government financial support packages.

Value for Money

Key findings

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

Significant risk	Findings	Conclusion
Informed decision making The 2018/19 audit of the financial statements identified a number of material errors requiring adjustment, and areas where the disclosures were not compliant with the Code of Practice. Our response to the risk was to review management's responses to the 2018/19 audit recommendations and action plan and the progress made in delivering improvements. We also reviewed management's year end financial closedown plan, quality review process and working papers to ensure sufficient steps are made to improve the standard of the 2019/20 accounts.	Management provided their 2019/20 draft financial statements and narrative report for audit on 28 August 2020 in advance of the MHCLG target date of 31 August 2020. This supports the efforts of management in developing and adhering to their final accounts closedown plan and the quality measures in place to review the draft statements for consistency and presentation prior to release for audit. We revisited the recommendations raised in the 2018/19 Audit Findings Report which were intended to address the matters raised. We have sufficient evidence that management has addressed the majority of issues raised in compiling the 2019/20 draft accounts. Supporting working papers were provided for the 2019/20 audit according to the timetable agreed with the audit team. The 2019/20 audit fieldwork itself was however delayed due to ongoing 2018/19 audit work, with the 2018/19 opinion being issued on 23 December 2020. Covid-19 and remote working has impacted auditor availability which added some delay to the audit process. The audit working papers were of a generally good standard and we received the full support of the Council's finance officers in addressing audit queries, aided by weekly update meetings. The draft accounts presented for audit were of a higher quality than those of the previous year, and this is evidenced by the small number of errors reported at Appendix C. The accounts contained one material adjusted error for valuation of schools which management were quick to address, and there were only minor deviations from the Code of Practice to report.	Based upon the findings we are satisfied that the significant risk concerning informed decision making in producing draft accounts that are free from material error, and consistent with the Code of Practice has been addressed. There are some areas where management can further enhance their working papers such as in cleansing populations of debtors/creditors and income/expenditure to facilitate more meaningful audit sampling, but overall there has been a significant improvement from the previous year. See Recommendation 5 at Appendix A. We therefore concluded that there are appropriate arrangements in place for sustainable resource deployment. This supports our proposed 'clean' unqualified VFM conclusion.

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Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. Below are the audit related services provided during the year, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	5,000	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 £5,000 in comparison to the total fee for the audit of £97,076 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim (including one batch of 40+ extended testing)	15,000	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 £15,000 in comparison to the total fee for the audit of £97,076 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services was identified as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Non-audit related			
CFO Insights Subscription	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £97,076 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. These fees have not been reflected in the accounts because of the timing of CFO Insights The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Business Efficiency Board. The service is not subject to contingent fees.

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Action plan

We have identified 5 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	**Related party disclosures** 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 3.9.1). This is a repeat recommendation from the 2018/19 audit.	**R1. 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 3.9.1). **Management response** Agreed.
Medium	**Compilation of the cashflow statement** On checking the cashflow statement we identified a number of material amendments. Compilation of the cash flow is a repeat recommendation from the 2018/19 audit.	**R2. Cashflow statement** The Council need to ensure it has a thorough process in place for compiling the cashflow statement in line with Code guidance. **Management response** Agreed.

Controls

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

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Public

Action plan (continued)

Assessment	Issue and risk	Recommendations
Medium	**Land and buildings valuation** The Council approach to valuing schools was not compliant with Code guidance to value all assets within a class of assets. This resulted in a material adjustment to the valuation of land and buildings in note 17.	**R3. Land and buildings valuation** The Council need to ensure it has a thorough process in place for obtaining valuations when required in line with Code guidance. **Management response** Agreed. Note that the Council is to move from a five yearly to a three yearly valuation cycle from 2021/22 to gain more assurance on the overall valuations.
Medium	**PFI future commitments** The PFI future payment tables for services schedule in note 31 have not been updated for RPI inflation which is inconsistent with the PFI operator model. Management chose not to update 2019/20 note 31 because it is a disclosure note only and based upon an estimate of future RPI. The 2019/20 unitary charge is correctly reported.	**R4. PFI future payments** The future PFI commitments disclosures should be updated with RPI inflation uplifts to be consistent with the terms of the PFI agreements as set out in the operator models. **Management response** Agreed to update the PFI future payment notes for 2021 financial statements.
Low	**Financial statements supporting working papers** We have noted improvements to the 2019/20 financial statement working papers although are keen to work with management to identify areas for further improvement.	**R5. Financial statements working papers (VFM)** Build on the improvements in the working papers seen for 2019/20 to assist prompt sample selection by the audit team. **Management response** Agreed.

Follow up of prior year recommendations

We raised the following matters in the audit of Halton Borough Council's 2018/19 financial statements, which resulted in 13 recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note the significant progress made, with only two recommendations to be fully to be completed. We note that the 2018/19 recommendations were agreed after the 2019/20 draft financial statements were produced and management have committed to addressing the two outstanding recommendations for 2020/21.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**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.	Good progress made as detailed in VFM section (response to significant risk 2). Action completed.
✓	**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.	Action completed.
X	**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).	This matter has not been fully addressed in the 2019/20 Related Parties note. Management to revisit as part of 2021/22 closedown.

Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**R4. Valuation of non-current assets** We recommend 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	Action completed.
✓	**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.	Action completed.
✓	**R6. Mersey Gateway asset and liability** In future when considering any complex areas of the 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	Action completed.

Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**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.	Action completed.
✓	**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.	Action completed.
✓	**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.	Action completed notwithstanding the matters raised at Appendix C.
✓	**R.10 Mersey Gateway debts** We recommend the Council works closely with the Mersey Gateway Crossings Board to examine the levels and age of debt.	Action completed.

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Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**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.	Action completed.
x	**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.	Action not completed – compilation errors in the Cashflow statement identified during the 2029/20 audit.
✓	**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.	Action completed.

Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Cashflow statement and associated notes – Statement updated with material amendments in several areas to be consistent with the movements reported in the financial statements.	n/a	n/a	n/a
Note 17 Property Plant and Equipment – schools valuation To update the schools revaluation to reflect the decrease in value identified by the external valuer Dr Revaluation Reserve Cr Land and buildings	n/a	Awaiting updated accounts. Amounts and journal to be agreed. 8,100 (8,100)	n/a
Note 37 Unusable Reserves To reflect management's revisit of the remaining useful life of assets in use that are fully depreciated. This is to enable depreciation to be charged to the revaluation reserve and transferred to the Capital Adjustment Account. Dr Capital Adjustment Account Cr Revaluation Reserve	n/a	Awaiting updated accounts. Amounts and journal to be agreed. TBC (TBC)	n/a
Overall impact	**£0**	**£0**	**£0**

Audit adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Business Efficiency Board is required to approve management's proposal not to adjust for these items.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
CIES incorrect classification of S31 grant income received		0	0	Not material and no impact on total Comprehensive Income and Expenditure.
Dr Corporate and Democracy income (CIES)	694			
Cr Taxation and non specific income (CIES grant and note 5)	(694)			
Note 17 Property Plant and Equipment – to reverse a revaluation of surplus land asset previously disposed			n/a	Not material and no impact on total Comprehensive Income and Expenditure.
Dr Revaluation reserve		307		
Cr Surplus assets		(307)		
Overall impact	**£0**	**£0**	**£0**	

Impact of prior year unadjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Pension fund liability: non teaching staff retirees pre 1998			n/a	This was an estimated figure which the Council need to accurately confirm in future with its actuary. This has been done for 2019/20.
Dr Unusable reserves – pension reserve		382		
Cr Pension liability (LT)		(382)		
Overall impact	**£0**	**£0**	**£0**	

Audit adjustments (continued)

Misclassification and disclosure changes

Disclosure change	Detail	Auditor recommendations	Adjusted?
Accounting Standards that have been issued but not yet adopted. (Accounting Policy Note 28)	Note updated to make reference to the introduction of IFRS16 Leases standard effective from 1 April 2022.	-	✓
Going Concern (Accounting Policy Note 29)	Accounting policies updated to include a disclosure note to confirm that the accounts are prepared on a going concern basis.	-	✓
Grant Income (Note 7) **Expenditure and Income analysed by nature (Note 2)**	A reclassification of non ringfenced grants was required within disclosure note 7. £16.056m of non-ringfenced grants was removed from note 7 with a corresponding impact on note 2 (Expenditure and Income analysed by nature). Fees, charges and other service income was increased by £16.056m with a corresponding deduction to the grants received. This is a disclosure note only with no impact on the primary statements or General Fund.	-	✓
External Audit Fees (Note 14)	Note updated to be consistent with audit fees payable for 2019/20.	-	✓
Officer's Remuneration (Note 10)	Remuneration banding table updated to include two further employees in the £120k to £125k banding.	-	✓
PFI future payment disclosure table (Note 31)	The PFI future payment tables for services schedule in note 31 have not been updated for RPI inflation which is inconsistent with the PFI operator model. Management chose not to update note 31 because it is a disclosure note only and based upon an estimate of future RPI. The 2019/20 unitary charge is correctly reported.	See Recommendation 4	X
Assumptions made about the future and other major sources of estimation uncertainty - Pension Liability (Accounting Policy note 30b)	Note updated to make reference to the "material estimation uncertainty" in calculating the valuation of the pension investment due to Covid -19 market uncertainty. The matter was raised by the Pension Fund Actuary and the Auditor to the Fund.	-	✓
Financial Instruments – Maturity Analysis (Note 33)	The maturity analysis of financial liabilities was updated for liabilities due within one year (reduced from £65.683m to £58.546m). To be confirmed.	-	✓

Fees

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

Audit fee	Proposed fee	Final fee
Council Audit	97,076	111,637*
Total audit fee (excluding VAT)	**£97,076**	**£111,637**

The fees reconcile to the financial statements.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services (see page 26)	20,000	20,000
Non- Audit Related Services (see page 27)	12,500	12,500
Total non- audit fees (excluding VAT)	**£32,500**	**£32,500**

*To be confirmed

Remote working has taken additional time to explain the audit trail of transactions through remote working rather than discussing processes and procedures in person. There has also been additional work undertaken in response to PPE valuation (particularly schools), IAS 19 and ongoing discussions with management and valuers. The impact of Covid-19 has also required significant additional procedures to be carried out from planning to execution and completion of the audit, along with increased challenge and scrutiny of management judgements, estimates and disclosures within the financial statements.

The audit fee in note 14 does not include the proposed variation of £14,561 as this arose subsequent to the draft accounts being prepared.

Audit opinion

We anticipate we will provide the Council with an unmodified audit report

See separate document

DRAFT

Management letter of representation

See separate document

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