Grant Thornton

Halton Borough Council Audit Plan

Year ended 31 March 2022

27 June 2022

Contents

Your key Grant Thornton team members are:

Michael Green
Engagement Lead
T: 0161 953 6382
E: michael.green@uk.gt.com

Stephen Nixon
Senior Manager
T: 0161 234 6362
E: stephen.r.nixon@uk.gt.com

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

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

Key matters

Factors	Our response

Council developments

The Council has set a balanced budget for 2021/22 and 2022/23 although recognises that funding pressures exist further into the medium term financial plan which require addressing.

We have continued to hold regular meetings with the senior finance team at the Council. During these meetings we discuss a range of key issues regarding the Council's general developments, current and projected financial performance and emerging financial reporting issues.

We have also attended each Audit and Governance Board to provide audit updates and to gain a clear understanding of matters concerning risk management and Internal Audit reports.

Recovery from Covid 19 pandemic

The Covid-19 pandemic continued to have a significant impact on the normal operations of the Council. During 2021-22 the Council has been focused on response and recovery. It has had to work differently at all levels to be able to deliver all of it's required services effectively. The Council has continued to receive Covid related grant funding from the government for distribution to businesses and residents.

Infrastructure Assets

CIPFA has established a task and finish group to address an issue regarding the derecognition of parts of infrastructure assets following 'replacement' expenditure. The group will consider the issues arising, and how it might assist in their resolution. Such assistance might take the form of producing additional guidance on this issue, or including clarifications in the accounting code.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, will be agreed with the Section 151 Officer.
- We will consider your arrangements for managing and reporting your financial resources as part of our Value for Money work.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control.
- We will review the accounting treatment for Covid-19 funding for compliance with the code and appliable financial reporting standards.
- We will review your accounting treatment for Infrastructure Assets against the requirements of the code and the implications of any additional guidance or clarifications issued by CIPFA.
- We will continue to provide you with sector updates via our Audit and Governance Board updates.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Halton Borough Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance Board); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit and Governance Board of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of Land & Buildings and Investment Property
- Valuation of the Pension Fund Net Liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £8.795m (PY £7.421m) for the Council, which equates to 2% of your prior year gross expenditure for the previous year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.44m (PY £0.37m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following risk of significant weakness:

- The Council has identified budget gaps within its medium-term financial plan which will need to addressed to secure financial sustainability. A balanced budget of £113.9m has been set for 2022/23 although with a planned transfer of £7.8m from reserves, however there are budget gaps of £11.7m in 2023/24 and £4.8m in 2024/25 and £6.6m in 2025/26. The use of reserves can only be a temporary measure to achieving long term financial sustainability.

Further detail is provided at page 15. We will continue to assess the Council's arrangements and will provide a commentary against all key lines of enquiry in the Auditor's Annual Report. Should we identify any further areas of significant weakness as part of our further work we will bring them to your attention.

Audit logistics

Our planning and interim audit work visit took place in March and April 2022 and our final visit will take place between July and September. Management have committed to providing draft financial statements, together with working papers by 30 June 2022, being a month earlier than the statutory deadline in order to facilitate an early audit.

Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. These are planned to be delivered by the statutory deadline of 30 November 2022.

Our fee for the audit will be £134,951 (TBC) for the Council, subject to the Council delivering a good set of draft financial statements and working papers and allowing us to complete an element of the audit fieldwork in person at the Council.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 revenue and expenditure recognition risk	Revenue ISA (UK) 240 includes a rebuttable presumed risk that revenue recognition may be misstated due to the improper recognition. This presumption can be rebutted if the auditor concludes there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA 240 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 and opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Halton Council, mean that all forms of fraud are seen as unacceptable Although the risk of fraud is rebutted, we recognise the risk of error in revenue recognition and this is addressed through the responses to risk detailed across. Expenditure In the public sector, whilst it is not a presumed significant risk, in line with the requirements of Practice Note (PN) 10: Audit of financial statements of public sector bodies in the United Kingdom - we also consider the risk of whether expenditure may be misstated due to the improper recognition of expenditure. This risk is rebuttable if the auditor concludes that there is no risk of material misstatement due to fraud relating to expenditure recognition. Based on our assessment we consider that we are able to rebut the significant risk in relation to expenditure.	N/A as rebutted. Despite revenue and expenditure recognition not being a significant risk we will still undertake the following procedures to ensure that revenue and expenditure included within the accounts is materially correct: • evaluate the Council's accounting policy for income and expenditure recognition for appropriateness and compliance with the Code • update our understanding of the Council's system for accounting for income and expenditure and evaluating the design of relevant controls • undertake detailed substantive testing on the income and expenditure streams in 2021/22, including sample testing of material revenue and expenditure transactions • document our understanding of the full nature of additional Covid-19 related income and expenditure • review the accounting treatment of all new income and expenditure streams to confirm that they have been accounted for appropriately in line with the Code and accounting standards
Management over-ride of controls	Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override 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 for the Council.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified (cont.)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the Pension Fund Net Liability	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk of material misstatement.	We will: • update 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 • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability • test 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 • undertake procedures to confirm 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 • obtain assurances from the auditor of Cheshire Pension Scheme 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
Valuation of Land & Buildings & Investment Property	The Council revalues its land and buildings on a rolling basis. Investment Property is valued annually. Revaluations are shared between the Council's Internal Valuer and an external valuation expert, Sanderson Weatherall. These valuations represent 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. Additionally for land and buildings, management will need to ensure the carrying value in the financial statements is not materially different from the current value or the fair value at the financial statements date, where a rolling programme is used. We therefore identified the valuation of land and buildings as a significant risk for the Council.	For assurance over the balance sheet valuation of land & Buildings and Investment Property (including valuations undertaken by both the internal and external valuation experts) we will: • evaluate management's processes and assumptions for the calculation of the valuation estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write out to the valuation expert and discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluate 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 year end

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Accounting for Mersey Gateway Bridge Private Finance Initiative (PFI) liability	The Mersey Gateway Bridge PFI scheme is large and high profile to the residents of the borough. PFI schemes are complex and involve a degree of subjectivity in the measurement of financial information. We therefore identified the accuracy and presentation of the Mersey Gateway Bridge PFI scheme as a risk for the audit.	We will: Review the PFI model and assumptions contained within; Obtain an understanding of any changes to PFI contracts made since the prior year; Compare the PFI model to the prior year model to identify any changes; Review and test the output produced by the PFI model to generate financial balances within the financial statements; and Review the disclosures relating to the PFI scheme for compliance with the Code and the International Accounting Standard IFRIC12.
Accounting for grant revenues and expenditure correctly	The Council (as with all other Local Authorities) has been the recipient of significant increased grant revenues during the 2021/22 financial year relating to Covid-19. In common with all grant revenues, the Council will need to consider fore ach type of grant whether it is acting as agent or principal, and depending on the decision how the grant income and amounts paid out should be accounted for.	We will: Discuss with management to understand the different types of material grants received during 2021/22 and any conditions applicable; Understand the conditions for payment out to other entities, businesses and individuals; Therefore understand whether the Council should be acting as agent or principal for accounting purposes; and We will test material grant revenues to see whether the Council has accounted for these correctly.

Other risks identified (cont.)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note	Infrastructure assets includes roads, highways, streetlighting and bridge assets. Each year the Council spends a material sum on Infrastructure capital additions. As at 31 March 2021, the net book value of infrastructure assets was £640m, with the majority relating to the Mersey Gateway Bridge. In accordance with the Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address: The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets. The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced. For the avoidance of any doubt, these two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response.	We will: Reconcile the Fixed Asset Register to the Financial statements; Using our own point estimate, consider the reasonableness of depreciation charge to Infrastructure assets; Obtain assurance that the UEL applied to Infrastructure assets is reasonable; and Document our understanding of management's process for derecognising Infrastructure assets on replacement and obtain assurances that the disclosure in the PPE note is not materially misstated.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

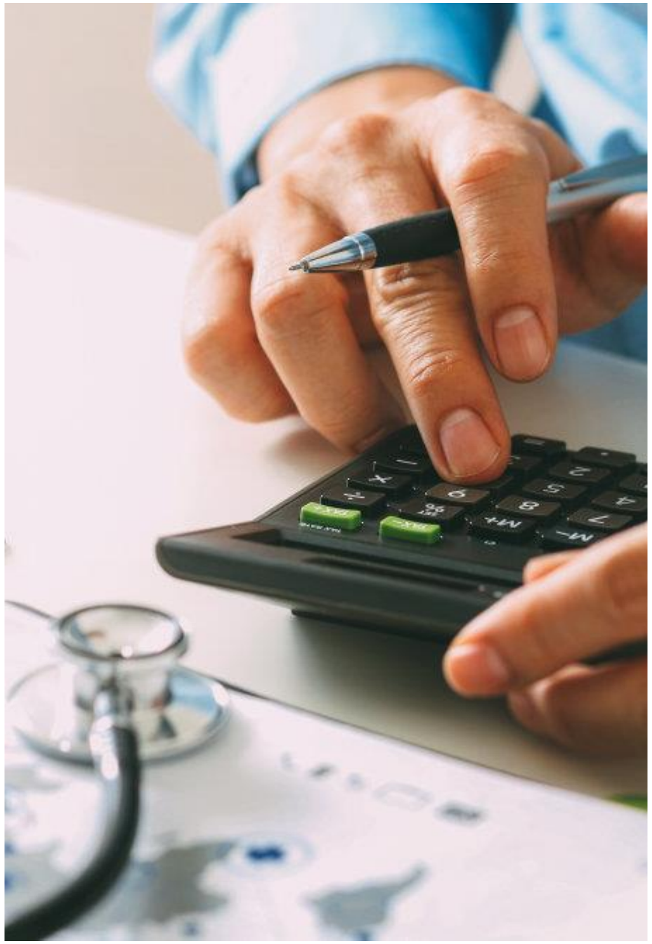
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

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

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

Specifically do Audit and Governance Board members:

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



Accounting estimates and related disclosures (cont.)

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, and investment properties
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- PFI liability estimate

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Accounting estimates and related disclosures (cont.)

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have addressed additional written enquiries to management and to those charged with governance in order to obtain the expanded understanding of the Council’s internal controls required under ISA (UK) 540. The responses to these enquiries will be presented by management at the 6 July 2022 Audit and Governance Board.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council’s website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

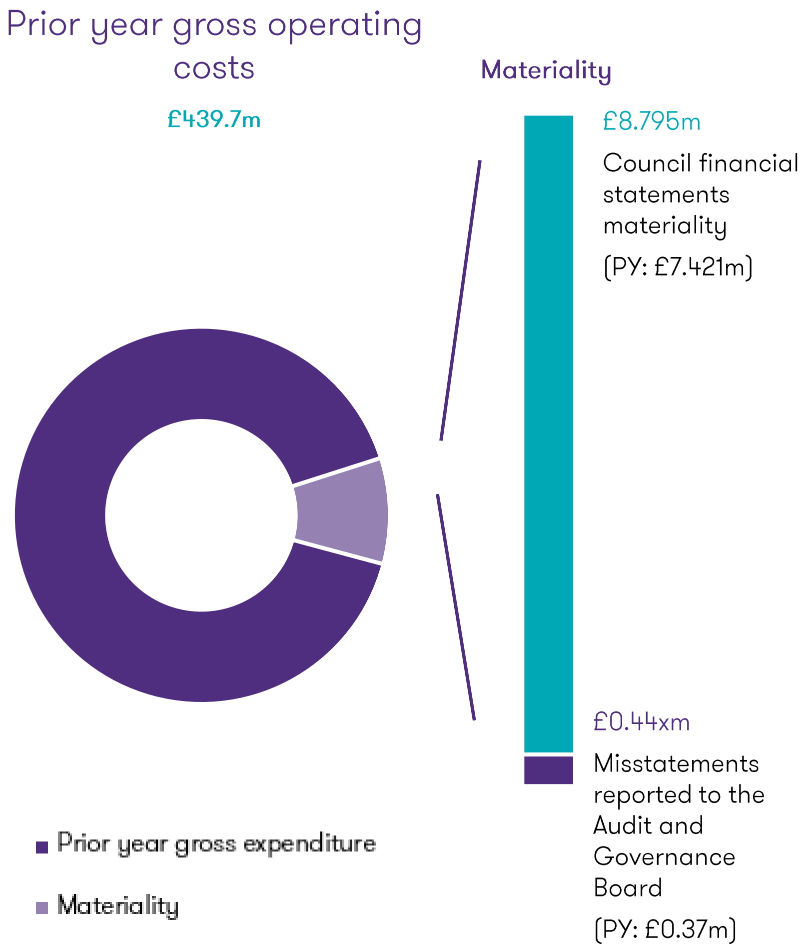
We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £8.795m (PY £7.421m) for the Council, which equates to approximately 2% of your 2020/21 gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £34,000 for Senior Officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit and Governance Board

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Governance Board any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. 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. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.44m (PY £0.37m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Board to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office(NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources . When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risk we have identified is detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risk of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

Financial Sustainability – addressing budget gaps in the medium-term financial plan

The Council has identified budget gaps (deficits) within its medium-term financial plan (MTFP) which will need to addressed to secure financial sustainability. A balanced budget of £113.9m has been set for 2022/23 although with a planned transfer of £7.8m from reserves, however there are budget gaps of £11.7m in 2023/24 and £4.8m in 2024/25 and £6.6m in 2025/26. The use of reserves can only be a temporary measure to achieving long term financial sustainability.

In response to this risk we will:

- meet with management to review the steps taken by management to address the budget gaps in the MTFP
- test the robustness of assumptions within the MTFP where budget gaps are addressed
- ensure that the financial position is clearly explained to Members in budget monitoring reports and financial plans

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team

Planning & Interim audit March – April 2022

Audit & Governance Board
6 July 2022
Audit Plan

Year end audit July – September 2022

Audit & Governance Board
28 September 2022
Draft Audit Findings Report

Audit & Governance Board
23 November 2022
Audit opinion
Auditor's Annual Report

Michael Green, Engagement Lead

Leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.

Stephen Nixon, Senior Manager

Plans and manages the delivery of the audit and value for money work. Maintains regular contact with senior officers and regularly attends the Audit & Governance Board to provide audit updates.

Andrew McNeil , Assistant Manager

Key audit contact for the finance team, responsible for the day to day management and delivery of the audit work including supervision of junior team members.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018, PSAA awarded a contract of audit for Halton Borough Council to begin with effect from 2018/19. The fee agreed in the contract was £81,076. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on page 9 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2021/22, as set out below, is detailed overleaf and has been agreed with the Operational Director – Financial Services.

	Actual Fee 2020/21	Proposed fee 2021/22
Halton Council Audit	£137,076*	£134,951*

* TBC. Note there will be an additional fee if audit work is completed off-site.

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of financial statements by 30 June 2022, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- make available desk space within the finance section for auditors to perform the audit on site when required

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£81,076
Ongoing increases to scale fee first identified in 2019/20 and 2020/21	
Raising the bar/regulatory factors	£4,375
Enhanced audit procedures for Property, Plant and Equipment	£6,250
Enhanced audit procedures for Pensions	£3,750
Additional work on Value for Money	£20,000
ISA 540	£6,000
Journals testing	£7,000
Additional costs relating to PPE accounting (Assets held for sale) – non-recurrent	£1,000
Additional VFM cost – Waste Management review and responses to identified risks – non-recurrent	£7,000
Final 2020/21 fee (To be agreed by PSAA)	**£136,451**
Adjust for non-recurrent element of 2020/21	£(8,000)
FRC response – Hot Review / Engagement Quality Control Reviewer	1,500
Infrastructure assets	5,000
Total audit fees excluding VAT. (To be agreed by PSAA)	**£134,951**

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) 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. We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. 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 Audit Findings report at the conclusion of the audit.

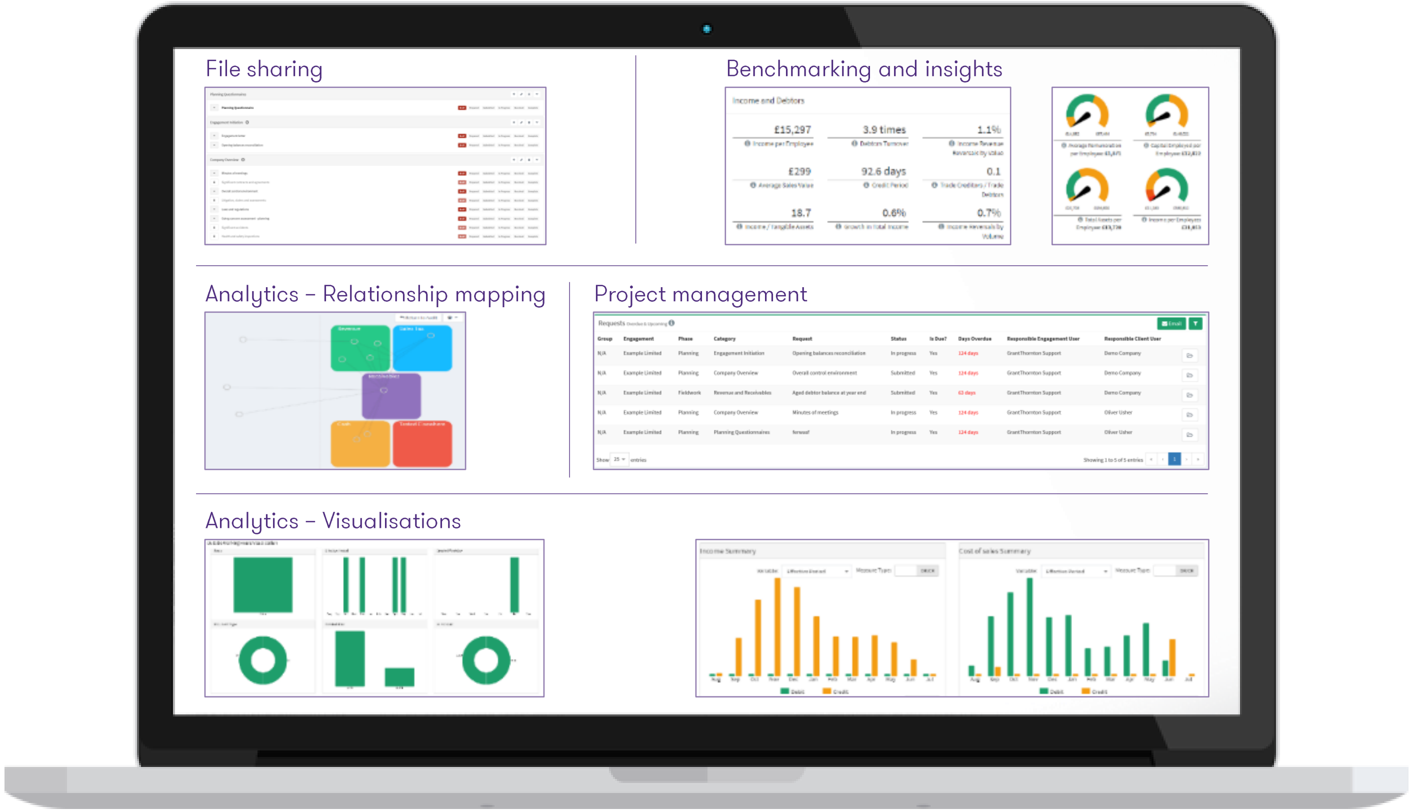
None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Housing Benefits Subsidy Certification	19,344*	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 £19,344 in comparison to the planned total fee for the audit of £134,951 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 Agency Certification	7,500*	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 £7,500 in comparison to the planned total fee for the audit of £134,951 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.
	26,844*		* TBC

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data

File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work

Project management

- Facilitates oversight of requests
- Access to a live request list at all times

Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendix 1: Progress against prior year audit recommendations

We identified the following issues in our 2020/21 audit of the Council's financial statements, which resulted in 7 recommendations being reported in our 2020/21 Audit Findings Report. **As part of our risk assessment we have also considered the impact of unadjusted prior period errors.**

The 2020/21 recommendations are shown below. We will follow up progress on implementation of these recommendations and report fully in our Audit Findings Report.

Priority	Issue and risk	Recommendation	Update on action taken
Medium	1. Management undertake a rolling programme of revaluations to ensure that all assets are revalued at least every five years on an agreed schedule. The revaluation by the professional valuer is dated 31 October 2020. This presents the risk that assets not revalued and/or revalued assets at 31 October contain material movements at the year end.	Management should undertake an annual assessment to quantify and clearly evidence whether: 1. the assets not revalued as part of the five-year cycle are not materially misstated, 2. the movement between the valuation date and 31 March 2021 on revalued assets is not materially misstated. Management response As indicated in the management response to the 2019/20 Audit Findings Report, 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. The valuation date will move to 31 January to give further assurance.	TBC upon receipt of draft 2021/22 financial statements and working papers
Medium	2. The Council's bank reconciliations contain a high volume of historic reconciling items. This presents the risk that the Council's bank account may be incorrectly recorded in the general ledger.	Review the reconciling items on bank reconciliations with a view to writing off any items that will not be cleared with particular reference to historic items. Management response Included within the bank reconciliation are 69 historic items totalling £93k. The Council will review this balance with a view to clearing.	TBC upon receipt of draft 2021/22 financial statements and working papers
Medium	3. Certain organisations were disclosed as related parties in the 2020/21 disclosure note but did not meet the definition of related parties in accordance with section 3.9 of the Code.	Ensure that related party disclosures are consistent with the guidance set out in the Code. Management response There have been significant improvements to the related party transaction note between the 2019/20 and 2020/21 statement of accounts. Work is already underway to ensure the note is improved further and consistent with guidance.	TBC upon receipt of draft 2021/22 financial statements and working papers

Appendix 1: Progress against prior year audit recommendations (cont.)

Priority	Issue and risk	Recommendation	Update on action taken
Medium	4. We note that there is a year on year improvement in supporting working papers. They could be improved further if debtor and creditor populations are cleansed to remove contra items, which will make audit sample selection more focused on true year end balances and thus increase efficiency during the audit.	Improve the quality of year end working papers by preparing a cleansed schedule of debtor and creditor populations (which does not include matching debit and credits to offset) **Management response** The Council will work with the External Auditor to agree a format of these working papers for future years.	TBC upon receipt of draft 2021/22 financial statements and working papers
Medium	5. We note that there is a year on year improvement in supporting working papers. They could be improved further if a year on year analytical review was prepared to explain significant variances. This will also assist management in assuring that values are in accordance with expectations	Prepare a year-on-year analytical review of significant movements at 31 March 2022 and thereafter. **Management response** Analytical review will be built into the closedown timetable.	TBC upon receipt of draft 2021/22 financial statements and working papers
Low	6. The presentation of the financial statements would be improved for the reader if the 2019/20 Comprehensive Income and Expenditure Statement (CIES) comparator values were included in tabular format on the same page as the current year CIES. Similarly the prior year comparator notes would be better placed chronologically after the current year notes.	Change the presentation of prior year comparators in the 2021/22 financial statements. **Management response** The presentation of comparator information has not been raised as an issue by any reader of the accounts. Regardless if there is available resource time the Council will review this.	TBC upon receipt of draft 2021/22 financial statements and working papers
Low	7. Finance Team do not undertake any routine checking of the existence of assets held on the fixed asset register, and rely on notification by the staff responsible for the asset regarding any potential disposals or obsolescence.	Control recommendation that the Finance Team undertake regular testing of assets held on the asset register for existence and making subsequent amendments where necessary. **Management response** The Council's Internal Audit team carry out checks as part of their programme of work on control of assets.	TBC upon receipt of draft 2021/22 financial statements and working papers

Grant Thornton

grantthornton.co.uk