Grant Thornton

# Audit Findings Report

## Warrington Borough Council

## Year ending 31 March 2019

12 June 2024

# Contents

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| Section | Pages |
|---|---|
| 1. Headlines | 3 |
| 2. Financial statements | 6 |
| 3. Value for money | 30 |
| 4. Independence and ethics | 37 |

| Appendices | |
|---|---|
| A. Follow up of prior year recommendations | 39 |
| B. Action plan | 47 |
| C. Audit adjustments | 48 |
| D. Fees | 60 |

# Headlines

The 2018/19 audit was a major challenge for both the Council's finance team and Grant Thornton. The main reason for this was the protracted and challenging 2017/18 audit which took several years to be completed. The 2018/19 audit could not be concluded until the finalisation of the 2017/18 audit, which was finally signed off in March 2023.

Furthermore, the 2018/19 audit had several additional financial reporting issues that took a long time to resolve. This was in addition to resolving the financial reporting issues that had impacted the prior year audit. One of the most significant challenges was resolving the audit queries related to the implementation of the new accounting standard, IFRS 9 Financial Instruments, which was introduced for the first time in 2018/19. The process of resolving these financial reporting issues took a considerable amount of time and effort from both the Council's finance team and Grant Thornton.

In addition, we are required to make sure that our audit work reflects the latest approach of our firm and meets the necessary quality standards. Our audit approach is always changing to keep up with statutory requirements and to respond to challenges from regulators. Our current audit approach includes some significant changes compared to the approach that we used when we began our initial audit testing in June 2019. We have extended our audit procedures to include more testing of the valuation of plant, property and equipment, and investment properties. Additionally, we have also extended our procedures to include the valuation of the net pension liability and management override of control. As a result, we have carried out significant additional testing in these and other areas to ensure compliance with current audit requirements. We did this because the 2018/19 audit continued until June 2024. We are committed to providing a high-quality audit that meets all necessary standards and reflects the latest approach of our firm. Our goal is to ensure that your financial statements are accurate, reliable, and compliant with all relevant regulations.

This table summarises the key issues arising from the statutory group audit of Warrington Borough Council ('the Council') for the year ended 31 March 2019.

| | | |
|---|---|---|
| **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:<br>• the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and<br>• 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.<br><br>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. | Our year end audit work commenced in June 2019 and due to the need to consider several complex issues and challenges it has been ongoing up to June 2024 and is now complete.<br><br>Our findings are summarised on pages 6 to 29. Audit adjustments were made to correct errors, improve presentation or to reflect underlying records. Audit adjustments are detailed in Appendix C. Adjusted errors amount to £85.058m, with unadjusted errors amounting to £1.387m. Both of which have the effect of increasing the loss in the CIES and reducing the Net Assets on the Balance Sheet. We have also raised two recommendations for management in an Action Plan at Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.<br><br>We have concluded that, following amendment, the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.<br><br>Our auditor opinion is modified with a limitation of scope imposed by management. We have not been able to obtain sufficient and appropriate evidence concerning the events after the reporting period disclosure note. Management have chosen not to provide us with the necessary information to reach a conclusion on whether the loans to solar farm companies are materially impaired or not. |

# Headlines

This table summarises the key issues arising from the statutory audit of Warrington Borough Council Council (‘the Council’) and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

| | | |
|---|---|---|
| **Value for Money arrangements** | Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:<br>• the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion’)<br>As part of our planning, we identified a significant VFM risk relating to arrangements in place to secure financial sustainability. The Council continues to operate in a challenging financial environment. The Council has adopted a bold approach to either help the regeneration of the local economy and/or support the Council's financial stability. This approach has led to investments in Redwood Bank and Birchwood Park. This approach brings increased risks which needs to be carefully managed and monitored. We reviewed Council’s arrangements for oversight of these risks and major transactions including the arrangements for managing risks, making informed decisions and monitoring the financial position. | In accordance with the Code, we have assessed the arrangements the Council had in place during 2018/19 to ensure:<br>• Informed decision making<br>• Sustainable resource deployment<br>• Effective working with partners and other third parties<br>We have concluded that Warrington Borough Council did not have proper arrangements to secure economy, efficiency and effectiveness in its use of resources in 2018-19.<br>The matters we reported relating to the prior year also existed in the 2018-19 financial year. The weaknesses that existed in 2018-19 included the Council’s Minimum Revenue Provision policy, arrangements to ensure compliance with the Prudential Code and monitoring and reporting of investments. As a result of these issues, we issued an adverse value for money conclusion for the 2018-19 financial year. It is noted that the Council has taken steps in more recent years to address these issues. For example, in October 2021, the Council amended its MRP policy to include a charge on its investment properties.<br>Our findings and recommendations are set out on pages 30 to 36. |

# Headlines

This table summarises the key issues arising from the statutory audit of Warrington Borough Council Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

| | | |
|---|---|---|
| **Statutory duties** | The Local Audit and Accountability Act 2014 ('the Act') also requires us to:<br>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and<br>• certify the closure of the audit | We received an objection from a local elector on 30 June 2019. On 13 August, we decided that some of the objection was legitimate. Specifically, the following issues were raised:<br>• The Council's investment in Redwood Financial Partners Limited.<br>• Uncertainty about the carried forward balances from the 2017/18 Statement of Accounts as these hadn't been audited when the draft 2018/19 accounts were published.<br>• Potential transactions between companies connected with Redwood Bank Limited and Redwood Financial Partners Limited.<br>Sadly, the local elector has passed away and their legal right to object to the accounts has ended. Nevertheless, we considered the eligible matters raised as part of our audit work.<br>We have decided not to use our wider powers, such as issuing a public interest report. However, in connection with the matters brought to our attention, we concluded:<br>• The valuation of the investment in Redwood Financial Partners Limited was materially overstated in the draft 2018-19 accounts. We asked management to adjust the valuation of the investment in the accounts. |

**Acknowledgements**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other officers throughout a difficult and protracted audit. There were numerous challenges encountered throughout the audit, ranging from lack of financial team capacity at certain points, increased sample testing required in certain areas due to increased audit risk, and the need for additional technical expertise in complex issues such as IFRS 9.

# Summary

## Overview of the scope of our audit

This 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.

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

## Audit approach

Our review of the Council's group assessment concluded that group accounts were not necessary for 2018-19 on the basis that Birchwood Park was in substance an acquisition of assets rather than an acquisition of a business. However, the Council have confirmed that they intend to continue with inclusion of Group accounts for qualitative reasons.

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

- an evaluation of the components of the group based on a measure of materiality considering each as a percentage of gross expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a targeted approach was required for Redwood Bank.
- an evaluation of the internal controls environment including IT systems and controls;
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

## Conclusion

The audit is now complete and throughout the audit we have had regular and on-going dialogue with officers on the key accounting issues. Our audit has identified errors that have been adjusted by the Council. Further details are provided at Appendix C.

Our audit opinion was modified with a limitation of scope imposed by management. We have not been able to obtain sufficient and appropriate evidence concerning the events after the reporting period disclosure note. Management have chosen not to provide us with the necessary information to assess whether the loans to solar farm companies are materially impaired or not.

We also issued an adverse value for money conclusion. Our findings and recommendations are set out on pages 30 to 36. In line with the matters raised in the prior year, this is due to several weaknesses we identified within the Council's arrangements in place during 2018-19 to ensure financial sustainability and to manage financial risk such as the:

- adequacy of the Council's MRP policy,
- arrangements to ensure compliance with the Prudential Code, and
- monitoring and reporting of investments.

# Summary

### 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.

Our assessment of the value of group materiality has been determined based on the actual revised 2018/19 group accounts provided after the 2017/18 audit was finalised.

Materiality calculations for the Council have changed from the amounts reported in our audit plan. This was due to a change in the maximum allowed percentage (down to 1.5% from 2% at planning), along with a higher assessed risk for the 2018/19 audit based on the issues identified as part of the 2017/18 audit.

| | Group | Council | Comment |
|---|---|---|---|
| **Materiality for the financial statements** | £5.867m | £5.096m | The Group materiality figure is based on 1.35% of the Group's 2018/19 gross expenditure.<br>The Council's materiality figure is based on 1.20% of the actual 2018/19 gross expenditure. This benchmark is considered to be an appropriate measure of what would be significant to the decision-making process which users of the accounts would wish to be aware in the context of overall expenditure. |
| **Performance materiality** | £4.107m | £3.567m | 70% of financial statement materiality. |
| **Trivial matters** | £0.293m | £0.255m | This represents the value of misstatements above that threshold which in our view warrant reporting on qualitative grounds. |
| **Materiality for specific transactions, balances or disclosures** | | | Disclosures of officer remuneration based on 1.2% (£19,640) of total officers' remuneration disclosed in Note 15.<br>PPE Revaluations and Pension Liability materiality figure reduced to 1% of total expenses in the year (£4.247m) due to a number of issues and errors found in the prior year audit which were significant and material. |

# 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).

The risk that a local authority would be unable to continue is lower than for many other public sector bodies. However, this does not mean that the concept of going concern in local authorities can be ignored. In recent years, local authority funding has been reduced substantially and many local authorities face significant financial challenges. In extreme cases, this could result in material uncertainties about whether a local authority is able to continue for the foreseeable future.

### Going concern commentary

#### Management's assessment process

The Council’s financial statements have been prepared on a going concern basis, as disclosed in Note 1.1. At the time of preparation, this judgement was based on management’s assessment of going concern for the Council (as a single entity) only. The assessment did not consider the going concern of each component of the group and the impact on the group’s ability to continue as a going concern.

We therefore asked management to complete an assessment of the group’s ability to continue as a going concern and determine whether or not a material uncertainty exists. We required this updated assessment to cover a period of at least 12 months for the forecast audit reporting date.

#### Work performed

As local authorities are created and abolished only by statutory changes there is an underlying assumption in the CIPFA Code that the accounts will be prepared on a going concern basis.

We reviewed the updated management’s assessment of going concern for both the Council and the Group. We asked Management to complete a further assessment as at March 2024 that was also subject to review. On the basis that there are no plans to abolish the Council, management rightly concluded that the use of the going concern assumption is appropriate for the Council. They have also concluded that the going concern assumption is appropriate for all components of the group except Together Energy, which ceased trading in January 2022 and is currently in administration. Management also did not identify any material uncertainties that would impact on the Council’s or the Group’s ability to continue as a going concern.

The 2023/24 budget was set against a background of high inflation, increasing social care demand and rising cost of living, energy, and supply costs. Included within the 2023/24 budget were funded pressures of £39.4m. This was to cover increasing demand, legislative changes, and a continued reduction in income. These additional costs, alongside the loss of income have to be mitigated and met from within the Council’s own resources. The Council’s current forecasted out-turn position (Budget monitoring 2023/24 – Quarter 2) for the revenue budget for 2023/24 is an overspend of £16.7m, and it is likely the overspend will have to be managed using the Council’s existing Usable Revenue Reserves which comprised of £103.933m as at 31 March 2023:

- General Fund £10.918m;
- Loans & Investment Reserve £6.177m; and
- Other Earmarked Reserves £86.838m.

# Going concern

### Going concern commentary

**Work performed (continued)**

As part of the medium-term financial planning framework and annual budget strategy, the Council has plans in place for the use of reserves and is seeking to identify further budget savings in response to ongoing reductions in core government funding whilst also trying to reduce the reliance on reserves each year in order to balance the budget. The current MTFP covers the financial years 2024/25 to 2027/28. The current forecasted spending gap across the four-year plan is £172.953m and contains saving plans of £15.905m and pressures of £70.363m with usable reserve estimates of approx. £70m.

If the Council is unable to fully mitigate the potential overspend through the measures already put into place, the Council will look to utilise reserves to address any residual overspend. If the use of reserves is required, the Council is aware that this is not a sustainable way of funding budget gaps on an ongoing basis and will need to replenish reserves to an appropriate level.

Based on the current assessment, the Council's financial forecasts for the single entity and actions taken to reduce spending do not indicate a material uncertainty in relation to going concern. We have requested the Council update the disclosures within the accounts to reflect the latest position on going concern.

In respect of the Group, management have provided an assessment that includes the following group entities:

Subsidiaries

- Together Energy
- Warrington Borough Transport,
- Warrington Renewables (Hull) Ltd, Warrington Renewables (York) Ltd and Cirencester Solar Farm Ltd.
- Incrementum Housing Development Ltd and Incrementum Housing Management Ltd

Associate

- Redwood Financial Partners Limited.

Joint Venture

- Wire Regeneration.

The Council had provided a guarantee for Together Energy to Orsted. The Council's exposure under this guarantee was estimated at £29m and there is no provision in the Council's future financial projections for this. Based upon current information, Orsted have subsequently confirmed that the Council have been released from this guarantee. The administrator has also stated in their latest report that the Council was owed £18.8m for the provision of loans and revolving credit facility. This is still subject to the final determination of ownership of the debtors, which have a final book value of approximately £55m. Discussions with the Council and the administrators are still ongoing over the final settlement amount due to the Council in respect of this.

The Council has also provided pension guarantees to five companies. If one of those bodies failed to pay its pension obligations then the Council would become responsible for those obligations. All these companies has a fully funded pension scheme so they do not create a significant going concern risk to the Council or Group.

# Going concern

### Going concern commentary

**Work performed (continued)**

Our procedures have not identified any events or conditions that may cast significant doubt on the Council's or Group's ability to continue as a going concern. There are no plans for the Council to be wound up and the Council has been able to set a balanced budget for 2024/25. Whilst we believe the Council faces significant financial risks, the forward financial planning arrangements of the Council are generally sound and are capable of producing reliable financial projections for the foreseeable future. Also, if the Council is not able to achieve its 2024/25 budget, it is likely that the government would allow the Council to access to additional cash resources by selling investments or other assets, which could be used to fund revenue expenditure via a capitalisation direction.

**Concluding comments**

On the basis that there are no plans to abolish the Council, we have concluded that the use of going concern assumption is appropriate for both the Council and the Group.

Our work has not identified any events or conditions that may cast significant doubt on the Council's or Group's ability to continue as a going concern over the next 12 months. Like most local authorities, the Council is having to make difficult decisions in order to set a balanced budget. However, the Council has been able to achieve a balanced budget in 2023/24 and has sufficient reserves and assets to mitigate any financial risks over the next 12 months.

# Significant audit risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Improper revenue recognition**<br><br>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.<br><br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. | **Auditor commentary**<br><br>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br><br>• there is little incentive to manipulate revenue recognition;<br>• opportunities to manipulate revenue recognition are very limited; and<br>• the culture and ethical frameworks of local authorities, including Warrington Borough Council, mean that all forms of fraud are seen as unacceptable.<br><br>Therefore, we do not consider this to be a significant risk for Warrington Borough Council. Nevertheless, we still perform substantive procedures on the Council's material revenue streams. These audit procedures did not identify any errors which we need to bring to your attention. |
| **Management override of controls**<br><br>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.<br><br>We identified management override of controls as a risk requiring special audit consideration. | **Auditor commentary**<br><br>We have:<br><br>• gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness;<br>• obtained a full listing of journal entries, identify and test unusual journal entries for appropriateness; and<br>• evaluated the rationale for any changes in accounting policies or significant unusual transactions.<br><br>We have not identified any significant changes in accounting policies since the prior year.<br><br>Our assessment of your significant accounting estimates is set out in more detail at pages 23 to 26.<br><br>Our assessment of the Council's valuation estimation processes identified that management had not completed a detailed assessment to determine whether those operational land and building assets that were not subject to revaluation during 2018/19 were fairly stated. Consequently, extensive further valuation work was completed by the Council resulting in an £10.295m adjustment to decrease the value of land and buildings disclosed on the Balance Sheet before the Council could conclude that the valuation of assets not subject to revaluation was not materially misstated.<br><br>We have undertaken an extensive evaluation of the significant transactions relating to Redwood Bank, Birchwood Park with our assessment set out in more detail on pages 15 and 16.<br><br>Our testing of journal entries did not identify any issues in respect of management override of controls. |

# Significant audit risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Valuation of land and buildings**<br><br>The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£374.3 million 2018/19) and the sensitivity of this estimate to changes in key assumptions.<br><br>Additionally, management will need to ensure the carrying value in the Council and group 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.<br><br>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. | We have:<br><br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;<br>• evaluated the competence, expertise and objectivity of the valuation expert;<br>• discussed with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions;<br>• reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding;<br>• tested revaluations made during the year to ensure they were input correctly into the Council's asset register;<br>• engaged our own valuer to assess and challenge the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuations; and<br>• 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.<br><br>We concluded that the overall methods and assumptions used in the valuation of operational land and buildings are appropriate and reasonable. We engaged an auditor's expert to provide us with specialist advice over the valuation process and approach applied by the valuer.<br><br>Our additional audit work on operational land and building assets not formally revalued in the year identified that the valuation was materially different to the current value. We identified an issue with assets not formally revalued in the year after we challenged the Council to demonstrate that the carrying value was not materially different to the fair value. Our assessment concluded that had those assets which had not been revalued would have likely had a material change in their value. We shared our assessment with the Council who subsequently agreed with our findings. The Council valuer undertook an exercise to retrospectively revalue additional land and building assets through the application of indices applied to the most recent revalued asset valuation. This resulted in a decrease in the value of land and buildings on the Balance Sheet of £12.341m with further consequential amendments made to a number of related notes to the accounts.<br><br>Our testing of a sample of assets revalued using the Depreciated Replacement Cost method identified a small number of errors in the valuation of some assets. The errors included the incorrect floor areas being used to calculate the asset value, incorrect valuation assumptions being used and an error in the formula being used to calculated the valuation. All errors identified required to be amended which resulted in an increase of £2.046m in the value of land and buildings on the Balance Sheet. The net valuation movement resulting from these amendments is £10.295m reducing the overall value of land and buildings on the Balance Sheet.<br><br>Further detail is set out at Appendix C. |

# Significant audit risks

| Risk identified in our Audit Plan | Commentary |
| --- | --- |
| **Valuation of pension fund net liability**<br><br>The Authority'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 (£232.055m 2018/19) in the Authority's balance sheet and the sensitivity of the estimate to changes in key assumptions.<br><br>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.<br><br>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.<br><br>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions, we have therefore identified valuation of the Authority's pension fund net liability as a significant risk and key audit matter. | We have:<br><br>• updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls<br>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work<br>• assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation<br>• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability<br>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary<br>• undertook 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<br>• obtained assurances from the auditor of the Cheshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.<br><br>In the prior year, we identified that data for unfunded teachers' pensions was not sent to the actuary by the Council and therefore not included in their actuarial assessments and reports. We requested that a revised Actuarial assessment was undertaken, which was also based on actual data rather than estimates that were applied in the original report provided to the Council. The majority of the cumulative impact set out in the updated actuarial report required an adjustment to reduce the overall pension liability by £17.423m as at 31 March 2018 and a £15.115m increase in liability relating to prior years. For financial year 2018/19, the above changes had a smaller impact for the Council, with the overall impact being a reduction in the pension liability of £0.231m.<br><br>The effect of the McCloud Judgement was not originally accounted for by the Actuary or included in their report. The Council received an updated actuary report which confirmed the liability position relating to the McCloud judgement, with the majority of the impact being recognised in the prior year audit. The overall impact for 2018/19 was that the pension liability was understated by £0.051m, which has been amended in the accounts.<br><br>We have confirmed that the entries relating to the pension scheme in the accounts agree to the actuarial valuation. We have considered the qualifications of and the work completed by the actuary and concluded that we can place reliance on their work. |

# Financial Statements – Significant audit risks not included in initial Audit Plan

This section provides commentary on other issues which were identified during the audit that were not previously communicated in the 2018-19 Audit Plan and a summary of any significant deficiencies identified during the year.

| Risk identified | Commentary |
| --- | --- |
| **Redwood Bank – Valuation (NEW)**<br><br>The Council took the decision to invest £30m over a three-year period to acquire 33% of share capital in a new challenger business bank known as Redwood Bank. The first tranche (£10m) was paid in April 2017, with two further amounts of £10m paid in 2018/19.<br><br>The Council's investment in Redwood Bank is held on the Balance Sheet at cost as a Long-Term Investment. The Council has determined that its interest in Redwood Bank is as an Associate, and it is consolidated into the Council's Group Accounts using the equity accounting method which is based on the Council's share of the Bank's net assets.<br><br>We have therefore identified the Valuation of the investment in Redwood Bank as a significant risk and key audit matter. | We have:<br><br>• assessed the competence, capabilities and objectivity of the Council's valuer (Ernst & Young) who completed the Redwood Bank valuation;<br><br>• discussed with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions;<br><br>• engaged our own valuer to assess and challenge the Council's valuer's report and the assumptions that underpin the valuations;<br><br>The Council's Investment in Redwood Bank was recorded in the Balance Sheet at a value of £30.4m. Following discussion with the Council, we advised them to request a valuation of this investment, due to the investment complexity and the risk of material misstatement. The valuation was prepared by Ernst & Young and indicated that there had been a significant impairment of the investment's value as at 31st March 2019. The valuation was subject to review by our GT internal valuation team who confirmed that there were no issues with the approach used by the valuer and that the investment was materially impaired.<br><br>The Council has recognised an impairment to the Redwood Bank Valuation of £26.1m, and the accounts now disclose the final Ernst & Young valuation of £4.3m. We have confirmed the adjustment has been correctly processed in the accounts. |
| **Completeness of Operating Expenditure – Completeness (NEW)**<br><br>As set out in practice note 10 (Revised 2022) 'The Audit of Public sector Financial Statements', issued by the Public Audit Forum, which applies to all public sector entities, we consider there to be an inherent risk of fraud in expenditure recognition.<br><br>We focussed our risk on the non-payroll expenditure streams. Our testing included a specific focus on year-end cut-off arrangements, including consideration of the existence of accruals in relation to non-payroll expenditure. | We have:<br><br>• performed detail testing of expenditure transactions at and around year-end to verify the accounting period transactions relate to and confirm that transactions have been recognised in the correct accounting period;<br><br>• reviewed the judgements and estimates made by management when recognising accruals and provisions at year end within the financial statements and where appropriate challenged management accordingly;<br><br>• our testing included a specific focus on year-end cut-off arrangements, including consideration of the existence of accruals in relation to non-payroll expenditure<br><br>Our audit testing over operating expenditure identified two instances where expenditure transactions were not correctly accrued at the year-end. This resulted in expenditure in the accounts being understated by £308k. This has been reported as an unadjusted error and further detail can be found at Appendix C to this report. |

# Financial Statements – Significant audit risks not included in initial Audit Plan

This section provides commentary on other issues which were identified during the audit that were not previously communicated in the 2018-19 Audit Plan and a summary of any significant deficiencies identified during the year.

| Risk identified | Commentary |
| --- | --- |
| **Investment Properties – Valuation (NEW)**<br><br>The Authority's Investment Properties, represents a significant estimate by management in the financial statements due to the size of the numbers involved (£343.780 million 2018/19) and the sensitivity of this estimate to changes in key assumptions.<br><br>Investment property should be revalued annually. We have therefore identified the valuation of the investment Properties as a significant risk and key audit matter. | We have:<br><br>• reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;<br>• considered the competence, expertise and objectivity of any management experts used;<br>• discussed with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions;<br>• reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding;<br>• tested revaluations made during the year to ensure they were input correctly into the Council's asset register;<br>• engaged our own valuer to assess and challenge the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuations.<br><br>We concluded that the overall methods and assumptions used in the valuation of operational land and buildings are appropriate and reasonable. We engaged an auditor's expert to provide us with specialist advice over the valuation process and approach applied by the valuer.<br><br>Our testing of a sample of assets revalued found an issue around the capitalisation of legal fees on purchases during the year. This amounted to £4.760 million leading to an overstatement in valuation. There was also a £0.5 million understatement in the valuation of Birchwood Park leading to a net overstatement of £4.260 million. We understand that management will amend the accounts for these audit differences as a part of the final amendments to the accounts. |

# Financial Statements – other issues

This section provides commentary on other issues which were identified during the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

| Risk identified | Commentary |
|---|---|
| **Events after the year end**<br><br>Since 31 March 2019, the Council has acquired and disposed of individually material investment assets, which require disclosure in the accounts. We have asked the Council to complete an impairment review to assess whether any investments in subsidiaries, associates and joint ventures which are held at cost are materially impaired. | We asked management to update their assessment of post balance sheet events since the balance sheet date. All material acquisitions and disposals of assets since 31 March 2019 require disclosure. In addition, any material changes in income, expenditure, assets or liabilities need to be disclosed.<br><br>Further disclosures were required for the following areas:<br>• Material impairment of the Council's investments in Redwood Bank and Together Energy;<br>• Changes to the group since the balance sheet date;<br>• Material changes to the valuation PPE, Investment Property and the Net Pension Liability since the balance sheet date;<br>• Material increases in borrowings; and<br>• Estimated effect on income and expenditure as a result of the above changes.<br><br><u>Redwood Bank</u><br><br>Management have provided us with a recent company valuation of Redwood Bank undertaken by Ernst and Young (EY) in February 2023. EY's valuation range for a 33.3% shareholding in the bank is between £2.9 to £4.4m.<br><br>We engaged our in-house Valuations Team as our auditor expert to review EY's work. The expert confirmed that the discounted cash flow and market multiple approaches used by EY in their valuation are appropriate. Our expert concluded that EY's valuation of WBC's equity stake is reasonable.<br><br>As outlined on page 13 of this report, the Council's Investment in Redwood Bank was recorded in the draft accounts at a value of £30.4m. Following our review of the EY valuation and consultation with our in-house Valuations Team, the Council has recognised an impairment to the Redwood Bank Valuation of £26.1m, and the accounts now disclose the final Ernst & Young valuation of £4.3m.<br><br><u>Together Energy</u><br><br>The Council bought a 50% stake in Together Energy in late 2019 for £18m. In January 2022, the Board of Together Energy concluded that the company was unable to continue to trade and was or would become insolvent and that it should appoint Administrators. The administrator's report was published on 29 March 2022. We engaged our in-house Restructuring team as our auditor expert report to review the administrator's proposals. Whilst there is caveat around ownership of the debt book, our expert advised that there should be sufficient headroom for the Council to fully recover the £18.8m secured debt and it has been confirmed that there will be no call on the £29m guarantee provided to Orsted. At the moment, it remains uncertain as to whether the Council will recover its £18m investment in preference shares. We are satisfied with the amended disclosures that management have included to reflect this position. |

# Financial Statements – other issues

This section provides commentary on other issues which were identified during the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

| Risk identified | Commentary |
|---|---|
| **Events after the year end**<br><br>Since 31 March 2019, the Council has acquired and disposed of individually material investment assets, which require disclosure in the accounts. We have asked the Council to complete an impairment review to assess whether any investments in subsidiaries, associates and joint ventures which are held at cost are materially impaired. | <u>Solar Farms</u><br><br>Since 31 March 2019, the Council has loaned a total of £87.4 million to three solar farm companies that operate in Hull, York, and Cirencester. As part of our review of the Council's events after reporting period disclosures, we asked management to assess whether the expected credit losses on these loans could be material. We believe that the expected credit loss assessment is more complicated for these loans than for others in the Council's portfolio. This is because the loans are long-term, and there may be complex economic factors that could impact impairment. For example, it is likely that the Council would need to consider the forecast for energy prices and the amount of energy the solar farms could generate over the loan term and how this would affect loan recoverability in their assessment of credit risk. Management has chosen not to provide us with an assessment of credit risk in accordance with IFRS 9, so we have been unable to obtain enough and appropriate evidence to conclude whether these loans are materially impaired or not and, therefore, the completeness of the Council's events after reporting period disclosures. As a result, we have placed a management-imposed limitation of scope on our auditor's opinion. |

# Financial Statements – other issues

This section provides commentary on other issues which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

| Risk identified | Commentary |
|---|---|
| **Valuation of Infrastructure Assets**<br><br>The CIPFA Code of Practice on Local Authority Accounting states that Infrastructure assets shall be measured at depreciated historical cost. Historical cost is deemed to be the carrying amount of an asset as at 1 April 2007 (i.e. brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment.<br><br>The Gross Cost of the Council's Infrastructure assets as at 31/3/18 was £263.309m with accumulated depreciation of £37.138m and a Net Book Value as at 31/3/19 of £226.171m.<br><br>We identified a risk that the carrying value of infrastructure assets is not appropriate given the nature of how the assets are held on the balance sheet and monitored through the asset register. | The inherent risks which we identified in relation to infrastructure assets were:<br><br>• an elevated risk of the overstatement of Gross Book Value and accumulated depreciation figures, due to lack of derecognition of replaced components<br><br>• a normal risk of understatement of accumulated depreciation and impairment as a result of failure to identify and account for impairment of infrastructure assets and an over or understatement of cumulative depreciation as a result of the use of inappropriate useful economic lives (UELs) in calculating depreciation charges.<br><br>CIPFA established a Task and Finish Group to address the issue regarding derecognition of elements of infrastructure following "replacement" expenditure. CIPFA worked with the government and a statutory instrument was issued gaining royal assent on 25 December 2022 and updated the Code of Practice on Local Authority Accounting following the outcome of consultations that removed the need to report gross cost and accumulated deprecation.<br><br>We have completed the following work focusing on the Council's current year's infrastructure assets:<br><br>• Reviewed and challenged the arrangements that the Council has in place around impairment of infrastructure assets<br><br>• Evaluated management's processes and assumptions for the calculation of the estimate including a review of in-year depreciation and associated Useful Economic Lives<br><br>• Challenged the information and assumptions used to inform the estimate and we completed an assessment to confirm that the actual depreciation charge for 2018/19 is not materially misstated.<br><br>Based on our work, we are satisfied that the Council has:<br><br>• correctly applied the SI and the requirements in the CIPFA Code update<br><br>• appropriately removed the gross book value and accumulated depreciation from its disclosures adding a new disclosure setting out opening net book value and any in-year movements<br><br>• not identified any prior period adjustments requiring disclosure in the accounts. |

# Financial Statements – other issues

This section provides commentary on other issues which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

| Risk identified | Commentary |
|---|---|
| **Introduction of IFRS 9**<br><br>IFRS 9 Financial Instruments, which came into effect in January 2018, changed the way impairments are recognised and reported by local authorities. It takes a more forward-looking view and requires authorities to estimate potential future credit losses on financial assets, such as loans to housing associations, based on probabilities. It introduces:<br><br>• a new approach for financial asset classification<br><br>• a more forward-looking expected loss model for impairments | We reviewed the initial classification of Financial Instruments under IFRS 9 and challenged management around the adequacy of their assessment. This led to them requesting EY to prepare a revised assessment that was sufficiently detailed. After consulting with our auditor’s expert in this area, further challenge questions were posed to the Council as there was still a risk of material misstatement.<br><br>We also reviewed all the financial instrument disclosures required by IFRS 9. While the majority of disclosures were adequate, we challenged the Council on some of the fair value disclosures which were considered materially misstated.<br><br>One area that has become more of a focus following the introduction of IFRS 9 this year is around expected credit losses. Under the old standard IAS 39, credit losses are only recognised when there has been an incurred loss event based on an incurred loss model. Under IFRS 9 entities are required to use an expected credit loss model instead. There are three key points about this new model that should be noted and are summarised below:<br><br>• Recognition and consideration at each reporting period - Expected credit losses (ECLs) are recognized at each reporting period through a provision, even if no actual loss events have taken place.<br><br>• Forward looking information - In addition to past events and current conditions, reasonable and supportable forward-looking information that is available without undue cost or effort is considered in determining impairment.<br><br>IFRS 9 introduces a three-stage model for recognizing credit losses:<br><br>• Stage 1: For financial assets that have not experienced a significant increase in credit risk since initial recognition, recognize 12-month ECL.<br><br>• Stage 2: For financial assets that have experienced a significant increase in credit risk since initial recognition, recognize lifetime ECL.<br><br>• Stage 3: For financial assets that are credit-impaired, recognize lifetime ECL.<br><br>We found that the Council had not initially assessed expected credit losses on their Long-Term Housing Association Debtors in preparing the draft accounts. We initially challenged management in this area in 2019 and we received management assessments in Q1 2024. These assessments were reviewed by our auditor's expert. We also verified the completeness and accuracy of the source data used in the assessments. All loan assessments were considered Stage 1 in the three-stage model, so only a 12-month expected credit loss provision was needed. Management did not prepare any estimate of expected credit losses but using benchmarking market information we have determined that the risk of material misstatement is very low. We have raised a recommendation for management to update the expected credit loss assessments on an annual basis.<br><br>We also reviewed all the financial instrument disclosures required by IFRS 9. Most disclosures were adequate but we challenged the Council on some of the fair value disclosures that were materially misstated. |

# Financial Statements – other issues

This section provides commentary on other issues which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

| Risk identified | Commentary |
| --- | --- |
| **Introduction of IFRS 9 (continued)** | After challenging the Council's initial IFRS 9 Classification, we confirmed that no changes were necessary in that area.<br><br>Following the auditor's review of the Council's default exposure in the ECL Review, we are confident that any provisions in line with IFRS 9 would have a trivial value.<br><br>We did find though that the arrangement fees on the IFRS 9 loans were not part of the effective interest rate, nor were the loans measured at fair value. As a result, these fees should have been capitalised and amortised over the length of the loan agreement. From our further calculations in this area, we found that £1,765,411 should have been capitalised and currently held on the balance sheet at the year end. However, this amount is considered immaterial and has been included under Appendix C as an unadjusted audit difference.<br><br>The Council has made the recommended changes to the IFRS 9 disclosures. Overall, we are content that the financial statements are free from significant misstatements in this area.<br><br>To avoid delays on future audits, we recommend that the Council conducts more comprehensive assessments in this area and prepares ECL calculations for all future accounting periods. |

# Financial Statements – other issues

This section provides commentary on other issues which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

| Issue identified | Commentary |
|---|---|
| **IT Audit Findings**<br>As part of our audit work carried out on internal controls, we engaged our IT audit specialists (TRS) to review IT systems and IT general controls in place at the Council.<br>The financial applications included in the review were:<br>• SAP – which houses the GL, is used to generate the financial statements and manages payroll<br>• Academy – which processes material transactions relating to Council Tax and NNDR<br>The IT audit specialist prepared a report with their findings which was communicated to management for their response. | The IT specialist identified seven deficiencies in their review, which were included in the IT Audit findings report along with recommendations of the actions the Council should take to address each deficiency. These deficiencies identified as part of the process were as follows:<br>• Lack of proactive reviews of logical access within Active Directory and SAP<br>• Firefighter ID's are not being used to provide IT support in the SAP environment<br>• SAP_ALL is permanently allocated to 6 dialog users (repeat finding)<br>• Lack of security on SAP default SAP account (TMSADM)<br>• Access to SM49 and SM69 by Administrators<br>• System users have been setup as Dialog users with access to sensitive transactions (repeat finding)<br>• Table logging policies are not enforced<br>Each of the above deficiency's are assigned a risk rating by the IT auditor. All seven issues identified in the review were assessed as an amber risk, meaning there is a risk of inconsequential misstatement.<br>The above deficiencies were shared with the management who provided their responses and planned actions to address each recommendation. |

# Significant findings arising from the group audit

| Component | Findings | Group audit impact |
|---|---|---|
| **Redwood Bank** | **Use of unaudited figures** | |
| | Redwood Bank have a different financial reporting period end (31 December) than the Council (as at 31 March). As such the Council has used unaudited financial information for the period January to March 2019 as part its group accounts consolidation process. The Council did not undertake procedures to satisfy itself on the robustness, accuracy or reliability of the unaudited figures provided by both Redwood Bank.<br><br>For the bank in particular this will become more important in the future as the unaudited figures may become material as bank's business starts to grow. | The Council should satisfy itself on the reliability and accuracy of any unaudited figures used as part of its consolidation process for preparing group accounts. |
| **Redwood Bank** | **Conversion of Redwood Accounts from FRS 102 to IFRS** | |
| | The financial statements of both Redwood Bank are prepared on a different basis to that of the Council's accounts. Redwood Bank are prepared under the basis of FRS102 (developed by the Financial Reporting Council) whereas the Council follows IFRS (International Financial Reporting Standards). There are potentially some significant differences in the accounting treatment of financial instruments, investment properties, business combinations, deferred tax and defined benefit pension schemes.<br><br>For 2018/19, as the Redwood Bank investment is accounted for under equity accounting as an Associate, the valuation of the investment is the key element to consider in this area. While the majority of areas in the accounts are unlikely to change significantly on conversion, a key change for banks in this area will be accounting for expected credit losses as under IFRS. Under IFRS there is a much greater scope to consider for any provision as it must take into account future consideration of the financial position of the debtor loans held by the bank, dependent on what stage loans they are classified under with IFRS 9. | For Redwood Bank, there is a need to undertake a detailed conversion exercise to identify whether material differences in accounting treatment exist.<br><br>This is a complex technical issue and the Council will need to consider, as the bank expands, whether it has sufficient expertise in this area.<br><br>Our benchmarking exercise in this area didn't find any issue that could materially affect the value of the investment held by the Council. |

# Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements made by management within the Council's financial statements.

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| **Land and Building valuation – £374.3m**<br><br>**(PY £374.8m)** | **Land and buildings**<br><br>Other land and buildings comprises £349.1m 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 of £25.2m are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council engage its internal valuer to complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis. Initially, 20.5% of operational land and building assets were revalued during 2018/19.<br><br>Management set out in the draft financial statements that *"the Council carries out a rolling programme of revaluations in accordance with Accounting Policy 1.18 (Appendix A), as well as desktop reviews of assets not valued within a particular year. Revaluations are made with sufficient regularity to ensure that the carrying value of assets is not materially different to fair value."*<br><br>However, management were not able to provide a documented assessment to support the assessment that the carrying value of assets was not materially different to the fair value. As a result of auditor challenge, further asset valuations have been undertaken resulting in some 57.7% of total land and building assets being revalued as at 31 March 2019.<br><br>After material amendments were made to the draft Financial statements, the total year end valuation of land and buildings was £374.3m, a net decrease of £0.5m from 2017/18. | We have assessed the Council's internal valuer to be competent, capable and objective.<br><br>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 our testing identified errors in floor area and land area data used. The Council have completed additional testing that identified further errors (resulting in both under and over valuations) where the cumulative net impact was an actual understatement of £1.718m. The Council have adjusted £2.047m for some of these errors to increase the overall valuation of Land and Buildings, leaving an £0.329m overstatement for unadjusted errors in this area.<br><br>We confirmed that valuation methods remain consistent with the prior year.<br><br>We evaluated valuation movements by applying indices and shared completed valuations with our auditor's valuation expert (Wilks Head Eve) and held discussions with our expert to consider the appropriateness of judgements and assumptions applied with no significant issues identified.<br><br>In relation to assets not revalued in the year, we have reviewed and utilised the Gerald Eve (valuation specialists) report and held discussions with our own valuation expert to inform our assessment. We have also challenged the Council's valuation specialist on valuation differences identified through our sensitivity analysis work using other indices. Our assessment concluded that assets not subject to revaluation as at 31 March 2019 were likely to be materially misstated.<br><br>Consequently, management have undertaken extensive further work, including additional valuations and amended the draft financial statements to restate material valuation differences. Completion of further valuations enabled management to demonstrate and conclude that the valuation of non-valued operational land and buildings is not materially mis-stated.<br><br>We are satisfied that the Council's estimation in relation to valuation is adequate and consistent with the CIPFA Code and IAS 16. | We disagreed with the estimation process or judgements that underpin the estimate and considered the estimate to be materially misstated. Following amendments made that we advised, we are satisfied this area is no longer materially misstated. |

# Financial Statements – key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| **Investment Property:**<br>**£343.8m (PY £255.6m)** | **Investment properties**<br>Management's approach is set out in the draft financial statements and confirms that the fair value of the council's investment properties are measured annually at each reporting date. All valuations except for the Industrial Units contained in the Birchwood Park Industrial Estate are carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation experts work closely with finance officers reporting directly to the s151 officer on a regular basis regarding all valuation matters.<br><br>The valuation for the Birchwood Park Industrial Estate was carried out by Cushman & Wakefield, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.<br><br>As part of the 2017/18 audit, it was identified that the Council had classified £209.9m of Investment Property additions as Long Term Investments on the Balance Sheet. This issue was raised with the council and adjusted in the audited 2017/18 accounts. The prior year comparatives relating to 2017/18 and opening balance in this area for 2018/19 has been updated in the 2018/19 accounts for this issue, due to the 2018/19 accounts being originally issued before the 2017/18 audit was finalised and this issue was subsequently corrected. | We assessed both the Council's internal valuer and Cushman and Wakefield to be competent, capable and objective<br><br>We confirmed that valuation methods remain consistent with the prior year.<br><br>We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate.<br><br>We evaluated valuation movements applying indices and shared completed valuations with our auditor's valuation expert ( Wilks Head Eve - WHE) and held discussions with WHE to consider the appropriateness of judgements and assumptions applied by the Council with no significant issues identified.<br><br>We are satisfied that the Council's estimation in relation to valuation is adequate and consistent with the CIPFA Code and IAS 40.<br><br>Our audit testing of Investment Properties identified a variance of £4.7m between the Valuation Report and the Accounts, resulting in the total value of Investment Properties being overstated in the Balance Sheet. The difference related to legal fees which were erroneously capitalised on the purchase of investment properties during 2018/19. | **We consider management's process is appropriate and key assumptions are neither optimistic or cautious** |



# Financial Statements - key judgements and estimates

**Significant judgement or estimate**

**Net pension liability:**

**Group and Council: £232.1m (PY £156.281m)**

**Summary of management's approach**

The whole of the Group's pension liability (£232.1m) relates to the Council. The total net pension liability comprises the Cheshire Pension Fund defined benefit Local Government pension scheme obligations. The Council uses Hymans Robertson LLP to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation available for the 2018/19 audit was completed at 31 March 2016, utilising key assumptions such as life expectancy, discount rates, salary growth and investment returns.

Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. The Council has seen a £75.7m net increase in the Net Liability Related to Defined Benefit Pension Scheme during 2018/19.

**Audit Comments**

We have assessed the Council's actuary, Hymans Robertson LLP, to be competent, capable and objective

We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2017/18 roll forward calculation carried out by the actuary and have no issues to raise.

We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:

| Assumption | Actuary Value | PwC value / range | Assessment |
|---|---|---|---|
| Discount rate | 2.4% | 2.4% -2.5% | ● |
| Pension increase rate | 2.4% | 2.4% - 2.5% | ● |
| Salary growth | 2.8% | 1% - 3.5% | ● |
| Life expectancy – Males currently aged 45 / 65 (years) | 22.3<br>23.9 | 21.5 – 22.8<br>23.7 – 24.4 | ● |
| Life expectancy – Females currently aged 45 / 65 (years) | 24.5<br>26.5 | 24.1 – 25.1<br>26.2 – 26.9 | ● |

We have tested the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate and confirmed there were no significant changes in 2018/19 to the valuation method.

Our testing found that Unfunded Teachers Pensions had been excluded from the Actuarial assessment. The necessary data was subsequently provided to the actuary and updated Actuarial assessments obtained. The revised Actuarial assessment was based on actual data rather than estimates applied in the original report and resulted in an adjustment to reduce the overall pension liability by £0.231m as at 31 March 2019.

The effect of the McCloud Judgement was not originally accounted for by the Actuary or included in their report. The council received an updated actuary report which confirmed the liability position relating to the McCloud judgement, with the majority of the impact being recognised in the previous audit (2018: £2.89m). The overall impact for 2018/19 was that the pension liability was understated by £0.051m which has been amended in the accounts.

Following amendment, we are satisfied with the reasonableness of estimate of the net pension liability.

**Assessment**

With the exception of the minor amendment made in relation to the Unfunded Teachers Pensions, we agreed that the estimation process or judgements that underpin the estimate were correct.

# Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| **Minimum Revenue Provision - £2.734m (PY £0.275m)** | The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in capital regulations and statutory guidance<br><br>The year-end MRP charge in 2018/19 was £2.734m.<br><br>The Council has been able to reduce its MRP charge during the year by applying a £5.668m discount under the annuity method, or £5.328m discount under the straight-line method for previous overprovisions of MRP. This relates to an exercise during 2015/16 when it was deemed prudent to unwind a £15.8m overprovision of MRP over a 4-year period which management considered prudent at the time. | As part of the prior year audit, we challenged the Council's MRP policy as, in our view, the policy did not clearly state why the Council was departing from the Statutory Guidance on MRP or mention the Guidance at all in relation to the property investments. This issue equally applied to the 2018/19 financial year.<br><br>The Council's original calculation of MRP for 2018-19 did not include any charge on debt funded investment properties. This departure from the statutory guidance would lead to material reductions in the charge made by the Council over the expected life of investment assets into the future. As a result, we did not consider future MRP charges to be prudent.<br><br>After proposing to issue a statutory recommendation on this issue, the Council revised its MRP policy in early 2022. The Council has agreed to retrospectively apply the policy to the unaudited accounts from 2017/18 onwards. This change has increased the MRP charge from 2018/19 onwards.<br><br>We have followed up our prior year recommendation relating to MRP on page 43.<br><br>Whilst the Council's revised MRP policy uses on the available options in the statutory guidance to charge on an annuity basis. In our view, it would be more prudent to use one of the other options (straight-line basis) given the type of assets and associated revenue streams. Also, we believe that the Redwood Bank investment should attract a charge in 2018-19. Under the straight-line method and including a charge on Redwood Bank, the MRP charge would be £2.916m higher than that calculated by the Council. However, this is partially offset by the Council charging more than they had calculated under the annuity method in the accounts by £0.346m. Although we do not consider this to be a misstatement as the Council's calculation of the MRP is now compliant, we believe the estimate would be more prudent if it was increased by £2.570m. | We disagreed with the estimation process or judgements that underpin the estimate.<br><br>Whilst the estimate is not materially misstated in 2018/19, the Council's original MRP would have led to a material misstatement over the expected life of investment assets. |

# Other communication requirements

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

| Issue | Commentary |
|---|---|
| **Matters in relation to fraud** | We have not been made aware of any significant fraud incidents in the period and no such issues have been identified during the course of our audit procedures. |
| **Matters in relation to related parties** | A small number of disclosure amendments have been made to related parties disclosure note in the accounts. As in the prior year, we have again identified several undisclosed member interests and we have re-raised a recommendation to address this issue. |
| **Matters in relation to laws and regulations** | We have issued an adverse value for money conclusion for 2018-19 regarding compliance with the Prudential Code and recommended enhancing the Council's arrangements concerning non-treasury investments. It is noted that the Council has taken steps in more recent years to address these issues. For example, in October 2021, the Council amended its MRP policy to include a charge on its investment properties.<br><br>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any other incidences from our audit work. |

# Other communication requirements

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

| Issue | Commentary |
|---|---|
| **Written representations** | Specific representations were requested from management in respect of:<br>• management's intention for any future sale of Birchwood Park to be a sale of the Jersey Property Unit Trust rather than a sale of the investment property assets.<br>The Letter of Representation covering both the general representations alongside this specific representations was presented to members of the Audit and Corporate Governance Committee for approval in April 2024 and we have received a signed and dated version as at June 2024. |
| **Confirmation requests from third parties** | We requested from management permission to send confirmation requests to Cheshire Pension Fund. This permission was granted, and the requests were sent, and the request returned with positive confirmation. We also obtained direct confirmations from banks and long-term debtors for confirmation of the year-end balance. These requests were returned with positive confirmations. |
| **Disclosures** | A significant number of disclosure issues were identified during the audit. To address these issues, management has agreed to make amendments to the financial statements and Narrative Report. A summary of these disclosure issues are set out on pages 52 to 56. |

# Other responsibilities under the Code

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

| 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 Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br><br>We asked management to update the draft AGS to reflect the issues found through our 2018-19 Value for Money work. The AGS has been adequately amended by management. |
| **Matters on which we report by exception** | We are required to report on a number of matters by exception in a numbers of areas:<br>• 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<br>• If we have applied any of our statutory powers or duties.<br><br>In 2020, we considered issuing a statutory recommendation in relation to the adequacy of the Council's minimum revenue provision. However, as the Council acted in October 2021 to address the issue, we determined that a statutory recommendation was not required.<br><br>We have nothing else to report on these matters by exception. |
| **Specified procedures for Whole of Government Accounts** | As the 2018/19 Whole of Government accounts have been closed, specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions are no longer required. |
| **Certification of the closure of the audit** | We issued the certification of the completion of the 2018/19 audit of Warrington Borough Council at the same time as signing our opinion on the financial statements. |

# Value for Money

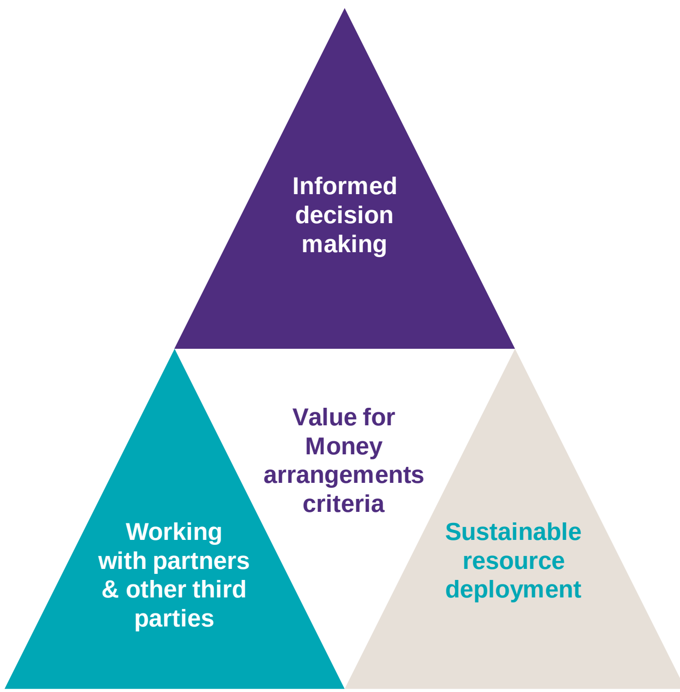
### Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2018/19 in November 2018. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

To help auditors to consider this overall evaluation criterion, the following sub-criteria are intended to guide auditors in reaching their overall judgements but these are not separate and auditors are not required to reach a distinct judgement against each one:




Proper arrangements cover the following in each sub-criteria:

### Informed decision making

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management including where relevant, business cases supporting significant investment decisions
- Reliable and timely financial reporting that supports the delivery of strategic priorities
- Managing risks effectively and maintaining a sound system of internal control

### Sustainable resource deployment

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions
- Managing and utilising assets effectively to support the delivery of strategic priorities
- Planning, organising and developing the workforce effectively to deliver strategic priorities

### Working with partners and other third parties

- Working with third parties effectively to deliver strategic priorities
- Commissioning services effectively to support the delivery of strategic priorities
- Procuring supplies and services effectively to support the delivery of strategic priorities

# Headlines

### Risk assessment

We carried out an initial risk assessment in Q1 2019 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 2 April 2019, which are summarised below:

- **Financial sustainability** - At the end of Quarter 2 in 2018-19, the Council is forecasting a year-end overspend of £8.0m. Against the savings target of £15.5m, the Council anticipates that £3.3m will be unachievable. We will review the in year financial performance against the budget and savings target, assessing whether the monitoring arrangements keep Members appropriately informed of the financial performance throughout the year. We will also review how the Council manages the risk of overspends and underachievement of savings. In addition, we will review the Council's medium term financial plans to return a sustainable financial position and ensure reserve levels are set at an appropriate level.
- **Informed decision making** - The Council continues to seek to explore opportunities for investments that generates income for the Council. There is a risk that as the financial challenges facing the Council becomes tougher the appetite for risk becomes increased. We will look at the Council's arrangements for managing risks associated with potential investment opportunities how risks are managed and monitored once investment opportunities are approved.

We have continued our review of relevant documents and considered further relevant issues and risks up to the date of giving our report and have not identified any further significant risks relating to 2018/19 where we need to perform further work.

We have carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

### 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 set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work on pages 33 to 36.

### Our 2018-19 VFM conclusion

Based on the work we performed to address the significant risk, we were not satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources in 2018-19.

This is due to weaknesses we identified within the Council's arrangements that existed during 2018-19 around the Council's MRP policy, arrangements to ensure compliance with the Prudential Code, monitoring and reporting of commercial investments and the decision-making process for the Redwood Bank investment.

Due to the significance of the matters we identified, we are not satisfied that the Council had made proper arrangements to secure economy, efficiency and effectiveness in your use of resources during 2018-19. We therefore propose to give an 'Adverse' Value for Money conclusion.

### 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. There were no matters where no evidence was available. Also, there are no matters of such significance to our conclusion that we require written representation from management or those charged with governance

# Headlines

### Significant matters discussed with management

We wrote to the Chief Executive in May 2020 to inform the Council that we were considering using our additional powers and duties due to various concerns over the Council's financial and governance arrangements including:

- Adequacy of the Council's minimum revenue provision,
- Compliance with Prudential Code in relation to borrowing to invest,
- Timeliness of financial reporting considerations, and
- Governance arrangements for monitoring and reporting of investments.

We have considered the Council's response to these matters and we have reviewed key supporting documents including the legal advice provided to the Council in support of its position. We have also sought our own legal advice in relation to the matters on minimum revenue provision and compliance with the Prudential Code.

Whilst we have decided against using our wider powers, we have qualified our 2018-19 VFM conclusion. We made several recommendations in our prior year Audit Findings Report published in June 2022 to address the weaknesses identified.

## Key findings

As our VFM work took place over several years and the key risks we reviewed applied equally to Council's arrangements in place during 2017/18 and 2018/19, we combined our work for the two years and reported our key findings in the 2017-18 Audit Findings Report (AFR). The 2017-18 AFR was reported to the Audit and Corporate Governance Committee in June 2022. Most the key findings previously reported are equally applicable to the Council's arrangements in 2018-19. We therefore do not intend to repeat our key findings in this Value for Money report to avoid duplication of reporting to the Audit and Corporate Governance Committee. Instead, in this report, we are reporting those findings that apply to 2018/19 only and providing our current view on the Council's progress in addressing the recommendations raised in the 2017-18 AFR.

| Significant risk | Findings |
| --- | --- |
| **Financial sustainability** | |
| At the end of Quarter 2 in 2018-19, the Council is forecasting a year-end overspend of £8.0m. Against the savings target of £15.5m, the Council anticipates that £3.3m will be unachievable. We will review the in-year financial performance against the budget and savings target, assessing whether the monitoring arrangements keep Members appropriately informed of the financial performance throughout the year. We will also review how the Council manages the risk of overspends and underachievement of savings. In addition, we will review the Council's medium term financial plans to return a sustainable financial position and ensure reserve levels are set at an appropriate level. | *Overview of performance against revenue budget in 2018-19*<br><br>In February 2018, the Council approved a revenue budget for 2018/19 of £136.836m. The 2018-19 year-end financial position compared to the revenue budget showed that there had been a small overspend of £0.316m in the year.<br><br>The largest area of overspend was in the Families & Wellbeing directorate, which overspent its net expenditure budget by £5.4m (or 5.1% overspent). This predominately due to demand-led pressures on both Adult and Childrens Services. This overspend was largely offset by a £5m underspend in the Corporate Financing directorate. This was in part due to lower than budgeted borrowing costs and greater than budgeted returns on the Council's investments.<br><br>As part of the approved budget, the Council agreed an annual savings target of £15.476m. The Council achieved 87% of the savings target.<br><br>*Overview of performance against capital budget in 2018-19*<br><br>The original capital budget for 2018/19 was approved by the Council at £389.542m. During the year, the budget has been revised and re-phased with a quarter 3 capital budget of £344.231m being approved by the Executive Board in March 2019. Against this revised budget, capital expenditure of £230.686m was incurred during the year, which is a shortfall of 33%.<br><br>The underspend of £113.5m primarily relates to an underspend on the scheme to generate revenue by providing loans to housing associations. Other schemes that slipped were Warrington 20:20 Transformation Programme, Highways Maintenance Investment and Warrington East Phase 2. |

| Significant risk | Findings |
|---|---|
| **Financial sustainability** | |
| At the end of Quarter 2 in 2018-19, the Council is forecasting a year-end overspend of £8.0m. Against the savings target of £15.5m, the Council anticipates that £3.3m will be unachievable. We will review the in-year financial performance against the budget and savings target, assessing whether the monitoring arrangements keep Members appropriately informed of the financial performance throughout the year. We will also review how the Council manages the risk of overspends and underachievement of savings. In addition, we will review the Council's medium term financial plans to return a sustainable financial position and ensure reserve levels are set at an appropriate level. | *Overview of financial position as at 31 March 2019*<br><br>The Council's net assets at the end of the year stood at £181.9m compared to £305.6m the previous year. Usable reserves fell by 3.7% during 2018-19 to £54.8m as reserves were utilised to manage performance against the revenue budget.<br><br>From 2018/19, usable reserves grew to £142.5m due to additional funding received during the Covid-19 pandemic. However, they have since significantly decreased to £69.5m as the Council has used reserves to maintain a balanced budget in more recent years in the face of sector-wide demand and inflationary pressures in service areas such as social care and temporary accommodation.<br><br>Following on from a significant increase in debt in the prior year, there was another significant increase in Council borrowing during 2018-19 of £145.9m. This debt was used mainly to fund the capital programme and the purchase of commercial investments, such as the additional investment in Redwood Bank. Since 2018/19, the Council's borrowing has more than doubled to £1,822.2m.<br><br>Compared to other unitary authorities, the Council's usable reserves levels are still higher than average. However, since the Council has one of the highest levels of borrowing among unitary authorities, we think that its usable reserves should also be among the highest. This is because the Council faces greater financial risk, and servicing this debt poses risks to its medium-to-long term financial sustainability.<br><br>*Budget monitoring reporting arrangements*<br><br>There was adequate budget monitoring reporting during 2018-19. Quarterly reports were presented to Executive Board to set out performance against the approved revenue and capital budgets.<br><br>It was recognised that improvements were required to the presentation of reporting of spend against the capital budget given the 33% shortfall. Most of the shortfall related to Invest to Save schemes, which are inherently more difficult to forecast. As a result, in 2019/20, Invest to Save schemes were shown separately from other types of capital expenditure.<br><br>*Adequacy of minimum revenue provision*<br><br>Key findings in relation to MRP were reported in the 2017-18 AFR and equally apply to 2018-19. See further comments on page 26 regarding the revised 2018-19 MRP charge. |

| Significant risk | Findings |
| --- | --- |
| **Financial sustainability** | |
| At the end of Quarter 2 in 2018-19, the Council is forecasting a year-end overspend of £8.0m. Against the savings target of £15.5m, the Council anticipates that £3.3m will be unachievable. We will review the in-year financial performance against the budget and savings target, assessing whether the monitoring arrangements keep Members appropriately informed of the financial performance throughout the year. We will also review how the Council manages the risk of overspends and underachievement of savings. In addition, we will review the Council's medium term financial plans to return a sustainable financial position and ensure reserve levels are set at an appropriate level. | *Compliance with Prudential Code*<br><br>Key findings in relation to compliance with the Prudential Code were reported in the 2017-18 AFR and equally apply to 2018-19. Therefore, not repeated in this report.<br><br>*Timeliness of financial reporting considerations*<br><br>Key findings in relation to timeline of financial reporting considerations were reported in the 2017-18 AFR and equally apply to 2018-19. Therefore, not repeated in this report. |

| Significant risk | Findings |
|---|---|
| **Informed decision making – managing investment risk** | |
| The Council continues to seek to explore opportunities for investments that generates income for the Council. There is a risk that as the financial challenges facing the Council becomes tougher the appetite for risk becomes increased. We will look at the Council's arrangements for managing risks associated with potential investment opportunities how risks are managed and monitored once investment opportunities are approved. | *Monitoring and reporting of investments*<br><br>Key findings in relation to monitoring and reporting of investments were reported in the 2017-18 AFR and equally apply to 2018-19. Therefore, not repeated in this report.<br><br>*Birchwood Park*<br><br>Key findings in relation to Birchwood Park were reported in the 2017-18 AFR and equally apply to 2018-19. Therefore, not repeated in this report. |

# Independence and ethics

### Independence and ethics

Throughout the duration of the 2018/19 audit, we have continued to maintain an ongoing assessment of independence and ethical considerations.

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.

The firm, its partners, senior managers, managers and network firms have complied with the Financial Reporting Council's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.

We decided to introduce a support partner (Mark Stocks) in 2021, as an additional safeguard to ensure our independence.

We have received confirmation that Mazars as auditors for Birchwood Park and KPMG as auditors of Redwood Bank that they are independent from the Group.

We have also received confirmation that PriceWaterhouse Coopers (PwC) and Wilks Head and Eve in their role as auditor experts are independent from the Group and the Council.

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

### Non-audit services

For the purposes of our audit, we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were provided during 2018-19.

| Service | £ | Threats | Safeguards |
|---|---|---|---|
| **Audit related** | | | |
| Certification of Teachers Pension | 3,000 | 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 expected to be £3,000 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| **Non-audit related** | | | |
| CFO Insights | 9,583 | Self-Interest | The fee is a subscription, planned to be recurring, and is therefore a self-interest consideration. However, the fee for this work is negligible in comparison to the total fee for the audit and in particular Grant Thornton UK LLP's turnover overall. It is also a fixed fee with no contingent element. These factors all mitigate the perceived self-interest threat to an acceptable level. |

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in 2018-19 financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

None of the services provided are subject to contingent fees. We do not believe that the services detailed above will impact our independence as auditors.

# Follow up of prior year recommendations

We identified the following issues in the audit of Warrington Borough Council's 2017/18 financial statements, which resulted in twelve recommendations being reported in our 2017/18 Audit Findings report. We have provided an update on these recommendations based on our findings from our 2018-19 audit procedures.

| Assessment | Issue and risk previously communicated | Update on actions taken in 2018/19 to address the issue |
|---|---|---|
| ✓ | **Infrastructure Assets**<br><br>The Council do not account for infrastructure assets in accordance with the CIPFA Code. Going forward, the Council should comply with the CIPFA Code requirements announced in Summer 2022 following the review by the urgent task and finish group. | CIPFA is considering revisions to the Accounting Code to help local authorities with this matter. The Council awaits CIPFA's response and will review and amend its practices in line with any changes to the Code.<br><br>The council have disclosed the Infrastructure Asset information in the accounts in line Section 4.1 of the Code. This include a temporary relief so that local authorities are not required to report the gross book value and accumulated depreciation for infrastructure assets. This temporary relief is applied from the 2021/22 Code up to and including the Code applicable to the 2024/25 financial year but has also been applied to the Council's accounts for the 2018/19 financial year. |
| ✓ | **Journal Authorisation Limits**<br><br>Review of journal authorisation limits identified three instances where staff had authorised journals that were outside their authorisation limit. Consider whether existing journal authorisation limits are appropriate and ensure the limits are correctly applied. | Our audit testing of journals for the 2018/19 audit did not identify any instances where staff had authorised journals outside their authorization limit. |
| X | **Members Register of Interest**<br><br>Ensure that members register of interests' disclosures are kept regularly up to date on an annual basis. | The Council issued a reminder to members of the need to make declarations where their interests change. However, as noted on page 25 we have identified a number of interests which had not been recorded. Therefore, the recommendation remains outstanding.<br><br>As an annual completeness check on declarations, we recommend that the Council also performs a search of Companies House to identify directorships held by members and officers and compares the results to the register of interests. |
| ✓ | **Valuation of Operational Land and Buildings**<br><br>We identified an issue with assets not formally revalued in the year after completing a full review, with our assessment concluding that had those assets been revalued that there would have been a material change in their valuation.<br><br>We shared our assessment with the Council who subsequently agreed with our findings. | The Council valuer undertook an exercise to retrospectively revalue additional land and building assets through the application of indices applied to the most recent revalued asset valuation. The result of this review was that assets not formally revalued during 2018/19 were overstated by £12.341m. The accounts have been adjusted for this amendment.<br><br>In addition, an assessment of the potential impact of all assets not subject to revaluation to determine that sufficient valuations has been undertaken has been implemented since 2019/2020. The Council confirmed Land and Building Assets will be reviewed to determine any "individually significant assets" in terms of value and or volatility of value change and these will be valued on an appropriate frequency. |

**Assessment**
✓ Action completed
X Not yet addressed

# Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken in 2018/19 to address the issue |
|---|---|---|
| X | **Source Data**<br><br>Our testing of key source data used as the basis of the land and building valuations identified some variances. Further testing completed by the Council identified further errors of this type. | Following an audit undertaken by RICS in 2019 Estates have reviewed the sources of data relied upon within the valuation process. Valuers are required wherever possible to provide accompanying evidence relating to the source of data used or a statement as to any limitations if the source cannot be verified. Our testing of a sample of assets revalued using the Depreciated Replacement Cost method identified a small number of errors in the valuation of some assets. The errors included the incorrect floor areas being used to calculate the asset value, incorrect valuation assumptions being used and an error in the formula being used to calculated the valuation. All errors identified required to be amended which resulted in an increase of £2.046m in the value of land and buildings on the Balance Sheet. |
| ✓ | **Unfunded Teachers Pensions**<br><br>We identified that data for unfunded teachers' pensions was not sent to the actuary by the Council and therefore not included in actuarial assessments. Consequently, both the opening and closing net pension liability disclosed in the Council's draft accounts was understated in relation to unfunded teachers' pensions. | Since the issue was identified the relevant data has been collated and passed to the Actuary as part of the provision of information for the IAS 19 report. This is now done annually. |
| X | **Bad Debt Provision (BDP)**<br><br>Our testing of debtor balances in 2018 noted that the Council's Bad Debt Policy is to provide for 100% of debt more than 5 years old with a 1% provision for debt less than 5 years old. | The Council should review the appropriateness of its Bad Debt Policy. Ideally, the general provision applied should be based on historic collection data. In addition, specific provisions should also be applied where recoverability issues with certain debtors are known.<br><br>We have reviewed the BDP as part of our audit testing and did not note any changes from the approach used in creating the BDP in 2018/19. The prior year audit recommendation remains valid. |
| X | **Componentisation Policy**<br><br>In 2010/11, the Council developed a policy to comply with the requirements of IAS 16 to recognise that certain Property assets contain high value components. Our review of valuations included consideration of the accounting treatment of these components, and we confirmed that the policy has not been subject to review since 2010/11. | The Componentisation Policy will be reviewed and updated as appropriate as part of the future valuations programme. The prior year audit recommendation remains valid. |

**Assessment**
✓ Action completed
X Not yet addressed

# Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken in 2018/19 to address the issue |
|---|---|---|
| X | **Use of unaudited figures**<br><br>Redwood Bank and Birchwood Park (31/12) have different financial reporting periods compared to the Council (31/3). Consequently, the Council has used unaudited financial information for the period January to March 2019 as part its group accounts consolidation process. The Council did not undertake procedures to satisfy itself on the robustness, accuracy or reliability of the unaudited figures provided by both Redwood Bank and Birchwood Park. | The Council initially hadn't performed this check as part of the 2018/19 accounts preparation, however following our challenge on this they will look to undertake a process of comparing the audited accounts to the draft accounts in future accounting periods to verify where there are material differences and make the necessary corrections as appropriate. The prior year audit recommendation remains valid. |
| ✓ | **Alignment of Accounting policies**<br><br>The accounting policies for Redwood Bank differ from the accounting policies of the Council. There is a need for the Council as part of its preparation of group accounts to do a formal exercise to consider whether there is a need from for alignment of accounting policies. | An independent review of Group Entities and the alignment of accounting policies, accounting standards, etc. was commissioned as part of the production of the 2018/19 accounts. Following this review, the Council ensures that any changes in accounting policy for Redwood is captured and checked for alignment. |
| ✓ | **Conversion of Redwood Accounts from FRS 102 to IFRS**<br><br>The financial statements of Redwood Bank are prepared on a different basis to that of the Council's accounts. Redwood Bank are prepared under the basis of FRS102 whereas the Council follows IFRS. There are potentially some significant differences in the accounting treatment of financial instruments, investment properties, business combinations, deferred tax and defined benefit pension schemes. | An independent review of Group Entities and the alignment of accounting policies, accounting standards, etc. was commissioned as part of the production of the 2018/19 accounts. Following this review, the council ensures that any changes in FRS102, accounting policies for Redwood is captured and checked for alignment. |
| ✓ | **IFRS 9 – 2018/19**<br><br>International accounting standard IFRS 9, which came into effect in January 2018 changes the way impairments are recognised and reported by businesses. It takes a more forward-looking view and requires businesses to estimate potential future credit losses based on probabilities. The new standard seeks to address these issues by fundamentally rewriting the accounting rules for financial instruments. | An independent review of the bank's loan book has been carried out to verify whether any impairment over and above what has been taken by the bank was necessary as part of the expected credit loss assessments required under IFRS 9 from 2018/19 onwards. This is carried out annually. |

**Assessment**
✓ Action completed
X Not yet addressed

# Follow up of prior year VFM recommendations

In our 2017-18 Audit Findings Report, we identified five recommendations for the Council as a result of issues identified during the course of our Value for Money work.

| Assessment | Recommendation | Update on actions taken to address the issue |
| --- | --- | --- |
| ● | We recommend that the Council reviews its governance arrangements for authorising major investments to ensure that there is appropriate scrutiny of any changes in the agreed approach made following initial member approval, and in particular, consider how it can ensure that officers are able to identify where changes of approach may require further member approval.<br>**Management response**<br>The Council now documents completion of all major transactions by way of officer decision notices and this has been the case for a number of years.<br>As set out above, any change that took the Council away from the original approval would have required a further Cabinet report, however there was no change in respect of the original delegation so no further approval was required.<br>The Council also now provides a regular update to Cabinet on all its non-treasury investments, which includes Redwood Bank, as part of the further improvements in Governance that have been made in recent years. | As part of their audit programme, we recommend that Internal Audit conduct a retrospective review of all major investment decisions to review compliance with the Council's Constitution to provide assurance to the Audit and Corporate Governance Committee on decision making processes. |

**Controls**

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

# Follow up of prior year VFM recommendations

| Assessment | Recommendation | Update on actions taken to address the issue |
|---|---|---|
| ● High | **Minimum revenue provision**<br>We recommended that the Council:<br>• changes its MRP policy to reflect that a MRP charge will be made on all its commercial investments<br>• provide a report to members that sets out the revised MRP determination over the expected useful life of assets and explains how they have concluded that the annuity method is appropriate and affordable over the expected life of the investment assets.<br>• improves it governance arrangements for reviewing and approving its MRP policy. In particular, there is a need to improve the information provided to members to inform their decision making. We recommend that any departures from statutory guidance are properly explained and the impact of those departures in totality over the expected life of assets are clearly set to members each year.<br>**Management response**<br>The Council in line with Guidance had adopted an alternative MRP Policy that's used by many Councils who have had their accounts signed off by various firms of External Auditors. Local authorities have flexibility in how they calculate MRP, providing it is prudent. The Council has extensive leading QC advice and Treasury Advisor advice supporting its treatment. Due to the complexity of MRP the Council brought this issue to the attention of the External Auditor in 2017 to enter into discussion on its relevance. The Section 151 also made corresponding contributions to the Strategic Risk Reserve to put the corresponding MRP charge in the earmarked reserve so the effect would be net neutral on the Council's finances if the decision was made to charge MRP in the future.<br>Following discussions with the auditor, the time and cost it would take to settle the issue in the courts and the future expected changes to the Prudential Code and the recently published Department for Levelling Up Housing & Communities Consultation on changes to MRP, the Council will change its MRP Policy to charge MRP on commercial property investments per the annuity method of Guidance.<br>The Council covers MRP in its annual Treasury Management Training to members and during 2021/2022 carried out a separate training course for members on MRP. The Council will also produce for members a simplistic briefing paper on the complex area of MRP.<br>The Annuity method is one of the methods contained in Guidance that numerous authorities use. The Council presented a report to the Audit & Corporate Governance Committee justifying the use of the annuity method on 10 February 2022. The report was debated and agreed by the committee. The annuity method was incorporated into the Council's 2022/23 MRP Strategy that was agreed by the A&CGC on 10 February 2022 and Full Council on 1st March 2022. | The Council changed its MRP policy as part of its 2022/23 budget setting process to include a charge on most of its commercial investments.<br>As reported in our 2017/18 Audit Findings Report, there are aspects of the Council's MRP Policy that we still have concerns about.<br>The residual concerns relate to:<br>• **Redwood Bank** - The lack of MRP charge on Redwood Bank until five years after acquisition.<br>• **Together Energy** - The expected life used in the calculation of MRP charge on the Together Energy investment<br>• **Time Square –** the lack of MRP charge until all units in the development are occupied.<br>• **MRP discounts applied** – these discounts have not been subject to audit yet, e.g. the £6.4 million discount applied to the 20/21 MRP charge.<br>All the above have the effect of reducing the MRP charge that the Council has applied in 2018/19 and future financial years. In Appendix C, we have reported a net undercharge of £2.570m as an unadjusted audit difference in the 2018/19 accounts. |

**Controls**

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

# Follow up of prior year VFM recommendations

| Assessment | Recommendation | Update on actions taken to address the issue |
|---|---|---|
| ● | **Borrowing to invest**<br><br>We recommend that the Council should:<br>• improve the clarity of its reasoning in the Capital Strategy and Property Investment Strategy to depart from the applicable guidance with a clear explanation why the Council considers that the level of risk is acceptable.<br>• commission an external review to assess the affordability, efficacy and sustainability of the Council's Capital Strategy over the long-term and to evaluate proportionality in terms of debt and commercial income as a percentage of budget.<br><br>**Management response**<br><br>The Council was one of the first Council's to introduce a fully Investment Guidance compliant Capital Strategy in 2018/19. The Council have in the past sought expert risk and QC advice on the composition of the strategy but welcomes the comments of the auditor to improve the strategy and will work with the auditor to implement the changes they are proposing for future Capital Strategies.<br><br>The Council have fully implemented the new 2021 Prudential Code for 2022/23 a year earlier than the deadline.<br><br>The Council notes the auditors comments and the statement that ''it is their view''. The Council have successfully been operating its commercial programme since 2009. The Council will commission an independent report that the auditor has requested. The report will also address the wider factors that play into proportionality other than the narrow definition given by the auditor. The Government, many other Councils and numbers commercial business have large borrowings but this does not need to be seen as disproportionate when compared to the level of security. | DULUC has asked CIPFA to conduct an independent review of the Council's capital plans, borrowing level, and governance arrangements for managing investment risk. The work began in Q1 2023, and we understand that management has received a draft report. However, we have not yet seen the draft report and are waiting for it to be finalised.<br><br>We anticipate that the Council will implement any recommendations that result from the review. |

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

# Follow up of prior year VFM recommendations

| Assessment | Recommendation | Update on actions taken to address the issue |
|---|---|---|
| ● | **Monitoring and reporting of non-treasury investment**<br>The Council is recommended to:<br>• implement action plan arising from the PWC governance review in accordance with agreed timescales.<br>• commission an independent follow-up review to provide assurance to Audit and Corporate Governance Committee that recommendations have been adequately addressed by the Council.<br>**Management response**<br>• The Council have already implemented an action plan that's been reported to the Audit & Corporate Governance Committee and also reviewed by Internal Audit.<br>• The Council will implement the recommendation. | DULUC has asked CIPFA to conduct an independent review of the Council's capital plans, borrowing level, and governance arrangements for managing investment risk. The work began in Q1 2023, and we understand that management has received a draft report. However, we have not yet seen the draft report and are waiting for it to be finalised.<br>We anticipate that the Council will implement any recommendations that result from the review.<br>Management is still working on carrying out the action plan that came from the PWC governance review. Once it is complete, we recommend the Council to commission a follow-up review to provide assurance that arrangements to monitor and report on non-treasury investments have improved. |

**Controls**

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

# Follow up of prior year VFM recommendations

| Assessment | Recommendation | Update on actions taken to address the issue |
|---|---|---|
| Medium | **Financial reporting**<br>We recommend that the Council:<br>• brings in additional resources to create capacity within the finance team to respond to audit requests in a timely manner.<br>• agree a timetable with external audit as to when each audit will take place so that resources are aligned on both sides. This timetable should be presented to the Audit and Corporate Governance Committee.<br>• continue to discuss potential financial reporting issues with external audit at as an early a stage as possible - ideally prior to any significant transactions taking place.<br>• continue to seek accounting advice for all significant transactions or changes in accounting standards to support the finance team where they assess that they do not have the capacity or relevant expertise.<br>• clearly set out the financial reporting implications of significant transactions in new business cases so members can understand the future impact on the Council's accounts.<br>**Management response**<br>The Council have a highly skilled dedicated experienced closure of accounts team. The Council have always produced their accounts to statutory guidelines. But officers have other duties. With 3 sets of accounts being outstanding additional resources will probably need to be brought in by the Council on both the finance and estates side. The Council upon entering into a plan with the auditor that they can resource the 2018/19 audit will bring in additional resource when required per the recommendation.<br>The Council fully agrees in formulating a timetable with Grant Thornton and reporting it to the A&CGC for the audit of 2018/19 accounts.<br>The Council will continue its good practice of discussing potential financial reporting issues with external auditor at as an early as possible before significant transactions take place.<br>The Council will continue its practice of taking independent financial accounting advice on transactions that it lacks the resource or expertise in.<br>The Council will continue its good practice of incorporating the financial implications in the reporting and business cases of new projects. | The Council's accounts are more complicated than those of most other local authorities. This is due to additional financial reporting requirements, such as IFRS 9, that the finance team needs to address each year as part of the annual accounts preparation.<br>Due to these additional requirements, we have concerns about the finance team's ability to manage accounting and auditing requirements within the statutory deadlines. We suggest that the Council hires additional resources to the financial accountancy team so that the statutory audit deadlines can be met in the future. We also recommend that the additional resources should have expertise in IFRS 9.<br>We still believe that the Council could be more proactive in bringing potential audit and financial reporting issues to our attention, especially those related to new investments or changes to existing investments. |

**Controls**

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

# Action plan – Financial statements audit

We have identified two recommendation for the Council as a result of issues identified during the course of our 2018-19 audit of the Financial Statements. 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) | **PPE – Nil Net Book Value Assets**<br><br>The Council's asset register includes £25.652 million of assets with a nil net book value that are fully depreciated. The majority of the balance is within land and buildings and plant and machinery.<br><br>There are two risks in relation to this issue:<br>• if these assets are no longer operational, the gross cost and accumulated depreciation balance will be overstated; and<br>• if these assets are operational, there is a risk that the Council is not assigning appropriate asset lives to its plant and equipment assets. | Perform a detailed review of their useful economic lives policy and updated where appropriate.<br><br>Embed a formal process for reviewing assets which have outlived their useful economic lives on an annual basis, to ensure the assets are still in existence.<br><br>**Management response**<br><br>Adjustment has been processed to strip out £1.991m relating to Nil Net Book Value assets in 2018/19. They have implemented a formal review process for these assets going forward to be reviewed annually when preparing the financial statements. |
| ● (High) | **Long term debtors – IFRS 9 compliant expected credit loss assessments**<br><br>The Council has made loans to housing associations, solar farm companies and other commercial entities. IFRS 9 requires management to assess and calculate expected credit losses on these loans at each reporting period.<br><br>We found that the Council had not initially assessed expected credit losses on their Long-Term Debtors in preparing the draft accounts. This led to delays in the completion of the 2018-19 audit once the prior year audit was concluded. | As part of the annual accounts preparation processes, management should prepare and update the expected credit loss assessments for each loan in its portfolio on a yearly basis.<br><br>**Management response**<br><br>Agreed - under IFRS 9 we will be including this as part of our annual accounts closure procedure each year going forward. |

**Controls**

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

# Audit Adjustments

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

**Impact of adjusted misstatements**

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.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 |
|---|---|---|---|
| **SINGLE ENTITY** | | | |
| **Single Entity Comprehensive Income and Expenditure Statement and Balance Sheet**<br>We identified an issue with the Council's PPE Asset Under Construction (AUC) balance after we challenged the Council to consider whether there were any indicators of impairment. A valuation was performed post year-end over the AUC balance, and it was confirmed that the market value was significantly lower than the cost value included in the accounts.<br>The impact of the amendment was that the single entity Comprehensive Income and Expenditure was understated by £43.700m and the Balance Sheet overstated by £43.700m. The accounts have been adjusted for this amendment. | Dr - £43,700 | Cr – (£43,700) | £43,700 |
| **Single Entity Comprehensive Income and Expenditure Statement and Balance Sheet**<br>Following the finalisation of the 2018/19 unaudited accounts, the Council's investment in Redwood Bank was valued by EY. The value of the council's investment was found to be significantly impaired and required to be amended.<br>The impact of the amendment was that he single entity Comprehensive Income and Expenditure was understated by £26.068m and the Balance Sheet overstated by £26.068m. The accounts have been adjusted for this amendment | Dr - £26,068 | Cr – (£26,068) | £26,068 |
| **Single Entity Comprehensive Income and Expenditure Statement**<br>**Group Comprehensive Income and Expenditure Statement**<br>Internal recharges of £20.833m had not been eliminated at closedown period and as a result income and expenditure on the single entity (Council's) Comprehensive Income and Expenditure Statement and the Group Comprehensive Income and Expenditure Statement was overstated. | Dr - £20,833 Income<br>Cr – (£20,833) Expenditure | £Nil | £Nil |

# Audit Adjustments

**Impact of adjusted misstatements - continued**

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 |
|---|---|---|---|
| **SINGLE ENTITY** | | | |
| **Single Entity Comprehensive Income and Expenditure Statement and Balance Sheet**<br>We identified an issue with assets not formally revalued in the year after we challenged the Council to demonstrate that the carrying value was not materially different to the fair value. Our assessment concluded that had those assets been revalued that there would have been a material change in their value. We shared our assessment with the Council who subsequently agreed with our findings. The Council valuer undertook an exercise to retrospectively revalue additional land and building assets through the application of indices applied to the most recent revalued asset valuation.<br>The impact of the amendment was that the single entity Comprehensive Income and Expenditure was understated by £12.341m and the Balance Sheet overstated by £12.341m. The accounts have been adjusted for this amendment. | Dr - £12,341 | Cr – (£12,341) | £12,341 |
| **Single Entity Comprehensive Income and Expenditure Statement and Balance Sheet**<br>Our audit testing of Investment Properties identified a variance between the overall value of assets in valuation report and the Fixed Asset Register / Accounts. The difference related to capitalised legal fees on purchase of investment properties during 2018/19.<br>The impact of the amendment was that the single entity Comprehensive Income and Expenditure was understated by £4.760m and the Balance Sheet overstated by £4.760m. The accounts have been adjusted for this amendment. | Dr - £4,760 | Cr – (£4,760) | £4,760 |
| **Single Entity Comprehensive Income and Expenditure Statement and Balance Sheet**<br>Our sample testing of PPE Land & Buildings revaluations identified errors in the valuation of some assets. The errors included the incorrect floor areas being used to calculate the asset value, incorrect valuation assumptions being used and an error in the formula being used to calculated the valuation. All errors identified required to be amended.<br>The impact of the amendment was that the single entity Comprehensive Income and Expenditure was overstated by £2.047m and the Balance Sheet understated by £2.047m. The accounts have been adjusted for this amendment | Cr – (£2,047) | Dr - £2,047 | (£2,047) |

# Audit Adjustments

### Impact of adjusted misstatements - continued

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 |
|---|---|---|---|
| **Single Entity Comprehensive Income and Expenditure Statement and Balance Sheet** | | | |
| Our 2017/18 audit testing of PPE (completed after the preparation of the 2018/19 accounts) identified an error in relation to the accounting treatment of a building asset. The building component had been demolished in 2017/18 however no disposal had been processed in the 17/18 accounts. In the unaudited 18/19 accounts, the building asset was given a Nil value and the council's asset manager system processed a downwards revaluation for the asset. However, the asset should not have been included in the accounts as it had previously been disposed.<br><br>The impact of the amendment was that the single entity Comprehensive Income and Expenditure was overstated by £0.416m and the Balance Sheet overstated by £0.416m. The accounts have been adjusted for this amendment. | Downward revaluation Dr – £416 | Downward revaluation Cr – (£416) | £416 |
| **Balance Sheet and associated Pension Notes**<br><br>Our 2017/18 audit testing of pension figures (completed after the preparation of the 2018/19 accounts identified that some relevant data relating to Unfunded Teachers Pensions was not provided to the Actuary. We raised this omission with the Council and the relevant information was subsequently provided to enable preparation of amended Actuary reports. The revised Actuarial assessment was based on actual data rather than estimates applied in the original report and resulted in an adjustment to reduce the overall pension liability by £0.231m as at 31 March 2019.<br><br>The impact of the amendment was that the single entity Comprehensive Income and Expenditure was overstated by £0.231m and the Balance Sheet understated by £0.231m. The accounts have been adjusted for this amendment. | Cr - Remeasurement of the net defined benefit liability – Pension Reserve - (£231) | Dr – Pension Liability – £231 | (£231) |

# Audit Adjustments

### Impact of adjusted misstatements - continued

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 |
|---|---|---|---|
| **Single Entity Comprehensive Income and Expenditure Statement and Balance Sheet**<br>Net Pension Liability - The effect of the McCloud Judgement was not originally accounted for by the Actuary or included in their report. The council received an updated actuary report which confirmed the liability position relating to the McCloud judgement which has been amended in the accounts.<br>The impact of the amendment was that the single entity Comprehensive Income and Expenditure was understated by £0.051m and the Balance Sheet overstated by £0.051m. The accounts have been adjusted for this amendment. | Dr – Remeasurement of the net defined benefit liability – £51 | Cr – Pension Liability – (£51) | £51 |
| **Overall Impact** | **£85,058** | **£(85,058)** | **£85,058** |

# Audit Adjustments

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements

| Amendment type | Account Balance | Detail | Adjusted? |
|---|---|---|---|
| **Classification** | Balance Sheet and Long and Short-term Investments (Note 34) | The classification of Rockfire Capital solar bond between long and short-term investments has been amended to reflect that £45 million of the bond was redeemed in 2018/19. A further amendment has also been made as a £10.1m investment in Just for Cash was also repaid in full in 2018/19. | ✓ |
| **Classification** | Various | The Council accounted for the acquisition of Birchwood Park as an investment in a subsidiary in the draft accounts. It was concluded that the acquisition of Birchwood Park was an acquisition of investment property. Consequently, a number of amendments have been made to the Council and Group's CIES, Balance Sheet, Cash Flow Statement and the Notes to the accounts. | ✓ |
| **Disclosure** | Related Parties (Note 39) | A number of disclosure changes have been made to the note:<br>• there had been a disclosure of an interest with Jersey Property Trust but this has now been removed following the prior year reclassification; along with the adjustment to Fairfield and Howley transactions; and<br>• to include reference to the Council's interest in Redwood Bank and Wire Regeneration Ltd.<br>As part of our review of member declared interests, we identified a number of member interests via a search of Companies House which do not appear to have not been disclosed to the Council. Further checks confirmed that in the most cases there had not been material transactions between the Council and the declared interest and that these had a trivial value. | ✓ |
| **Disclosure** | Capital Financing Requirement (CFR) | Our review of the calculation to support the 2018/19 CFR identified an issue that resulted in a £2.459m understatement of the Capital Financing Requirement and the Council have now made the required correction. | ✓ |

# Audit Adjustments

### Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements

| Amendment Type | Account Balance | Detail | Adjusted? |
|---|---|---|---|
| **Prior year comparators** | Throughout | The audited 2017-18 accounts were not finalised until March 2023. As the draft 2018-19 accounts were prepared in 2019, the prior year comparators have been updated throughout the accounts | ✓ |
| **Disclosure** | Group Accounts – Note 1 and 16 | Group Accounts Note 1 and Note 16 have been expanded to ensure that disclosure comply with the requirements of IFRS 12 and include:<br>• information about significant judgements made in respect of Redwood Bank and the level of significant influence that the Council hold;<br>• disclose where summarised financial information can be obtained;<br>• reference the accounting periods for the group entities and what information was used as part of the consolidation;<br>• the nature of, and risks associated with its interests in other entities and any effect of those interests on its financial position, financial performance and cash flows;<br>• that the basis of preparation of the accounts for Redwood Bank is different to the basis of preparation for local government accounts;<br>• details of any significant restrictions or protective rights affecting Redwood Bank; and<br>• details of any contractual arrangements including those with other investors that may require the Council to provide financial support. | ✓ |
| **Disclosure** | Financial Instruments (Note 34) | The following changes have been made to the note:<br>• Reconciliation to balance sheet values with fair value levels has now been added, along with various amendments to the fair values of some financial assets and liabilities.<br>• The refinancing and maturity risk table has also been updated to include the PFI liabilities so that the values reconcile back to the balance sheet.<br>• Collateral charges have also been corrected. | ✓ |

# Audit Adjustments

## Misclassification and disclosure changes

| Amendment Type | Account Balance | Detail | Adjusted? |
|---|---|---|---|
| **Disclosure** | Investment Properties (Note 23) | Update to Prior Period comparatives to agree final changes in classification in level 3 investments.<br>Amendments to the overall fair value table in prior year to agree to final values. | ✓ |
| **Disclosure** | Grant Income (Note 20) | The note for 2018/19 year has been updated for amendments to the 17/18 figures and the NHS CCG contributions have been reduced from £18.743m to £0.428m. | ✓ |
| **Disclosure** | Accounting Policies:<br>Note 1.10: Interest in Companies and Other Entities | The accounting policy has been updated to:<br>• describe the accounting treatment in the single entity accounts for the investments held in group companies; and<br>• include further information about equity accounting and its implications. | ✓ |
| **Disclosure** | Short term debtors Group Accounts (Note 6) and Single Entity (Note 26) | The prior year figure for other local authorities had been overstated by £4.031m, with the classification “other entities” understated by the same amount. The note has now been correctly amended.<br>Note 26 has been amended to include a separate disclosure of material prepayments in line with the requirements of IAS 1 | ✓ |
| **Disclosure** | Officer Remuneration (Note 15) | We set materiality for officer remuneration of £19,640 at 1.2% of total officer remuneration. There was a discrepancy of £28,854 between the figures in the employees over £50k banding note and the working papers. In addition, the total cost of exit packages had been incorrectly understated by £53,161. The total cost of exit packages is now correctly stated at £1,520,181. | ✓ |
| **Disclosure** | External Audit Costs | Note 17 sets out the fees payable to Grant Thornton for external audit services. The disclosure should be updated to reflect the final audit fee payable, which is £382,416. | ✓ |
| **Disclosure** | Expenditure and Funding Analysis - Note | The Expenditure and Funding Analysis Note has been amended to ensure it reconciles to the Statement of Comprehensive Income and Expenditure. There is also a corresponding amendment to the Cash Flow Statement.<br>The Expenditure and Funding Analysis disclosure has also now been moved to be disclosed as a Note to the Financial Statements. | ✓ |
| **Disclosure** | Annual Governance Statement | The section on significant governance issues within the Annual Governance Statement has been updated to provide further commentary on the significant governance issues affecting the Council in 2018-19, with an action plan added at Appendix 3 of the statement. | ✓ |

# Audit Adjustments

### Misclassification and disclosure changes

| Amendment Type | Account Balance | Detail | Adjusted? |
|---|---|---|---|
| **Disclosure** | Narrative Report | Our work identified a number of areas that need to be amended so that the requirements of the Code are met and that figures in the narrative report can be agreed to the relevant corresponding disclosures in the accounts. | ✓ |
| **Disclosure** | Accounting policies | The accounting policies were initially included in an annex to the financial statements, but should be shown with more prominence, being after the main statements and before the supporting notes. They should also refer to the group. The Council have made the necessary amendments. | ✓ |
| **Disclosure** | Critical Judgements | The critical judgements disclosures have been amended to clearly include the impact of the critical judgements made as the disclosure did not in respect of the judgements made for schools and the group. The Council also moved the critical judgement relating to Business rate appeals to include as Estimation uncertainty. | ✓ |
| **Disclosure** | Estimation uncertainties | The estimation uncertainties should disclose the potential impact of the estimation uncertainties made, however it did not in respect of the uncertainties for fair value measurement and arrears and business rates appeals. The disclosures have now been updated for Fair value measurements, business rate appeals and the Arrears disclosure has been deleted as the financial uncertainty for this estimate was highly unlikely to be material. | ✓ |
| **Disclosure** | CIES – Prior period adjustments | There are prior year updates to agree to the finalised figures that will need to be reflected in the CIES. This should just show the final figures, as no restatements were posted in 2017/18 based on any additional errors discovered during the 2018/19 audit. | ✓ |
| **Disclosure/Classification** | Property, Plant and Equipment – Note 21 | The disclosures at Note 21 include a table setting out the profile of revaluations undertaken by the Council over the rolling 5-year revaluation periods. The table has been amended to correct the value of land and buildings valued during the year. | ✓ |
| **Disclosure** | Debtors – Note 26 and Creditors – Note 28 | There are group balances within debtors and creditors that need to be separately disclosed. | ✓ |
| **Classification** | Balance Sheet | The Balance Sheet classification of Long-Term assets has been amended to disclose Investments in Associates and Joint Ventures separately. Previously these balances were included within the category of other Long-Term Investments on the Balance Sheet. | ✓ |
| **Disclosure** | Contingent Liabilities (Note 35) | Contingent Liability disclosures have been reviewed and amended to remove several disclosures that did not fully comply with IAS 37 and to update the disclosures to provide further relevant financial details where applicable. | ✓ |

# Audit Adjustments

### Misclassification and disclosure changes

| Amendment Type | Account Balance | Detail | Adjusted? |
|---|---|---|---|
| **Disclosure** | Balance Sheet and Note 27 | The Cash and Cash Equivalents Balance sheet disclosure has been amended to disclose both cash and cash overdrawn separately on the Balance Sheet rather than previously "netting off" the overdrawn cash balance held with banks. Note 27 has also been amended for this issue. | ✓ |
| **Disclosure** | Post Balance Sheet Events | Subsequent events disclosures updated to include disclosure of:<br>• material acquisitions and disposals of assets since 31 March 2019.<br>• material movements since 31 March 2019 in valuation of assets and liabilities held the balance sheet date. This includes disclosure of a material impairment in the value of investments held in Redwood Bank and Together Energy<br>• the estimated income and expenditure effect of the above changes.<br>• to correct the value disclosed of the Time Square regeneration project from £154.835m to £154.771m | ✓ |
| | | Management should add a statement to make it clear that it chose not to provide the auditors with an assessment for impairment in accordance with the requirements of IFRS 9 for the three loans made to solar farm companies and therefore the financial effect of any impairment has therefore not been assessed and disclosed. | ✓ |
| **Disclosure** | PPE – Infrastructure Assets | In accordance with the temporary relief detailed in the code on infrastructure assets, the accounts do not show the gross cost and accumulated depreciation for infrastructure assets in the Property, Plant and Equipment note. Instead, the accounts show the net position in a separate table to Property, Plant and Equipment. | ✓ |
| **Disclosure** | Narrative Statement - Pg 18 | Total for loans to housing associations should be £115.1m or £115.069m instead of £116m currently shown. | ✓ |
| **Disclosure** | Pooled Budgets | Overstated income of £105k, Understated income of £1,652k, Net error of £1,757k considered immaterial and is disclosure only. | X |

# Audit Adjustments

### Impact of Prior Year unadjusted misstatements

On review, we’re satisfied the Council has taken corrective action during the finalisation of the 2018/19 audit, so these misstatements are no longer applicable and have no impact on the 2018/19 audit. PPE and Investment Properties balances have been amended, and the actual errors for short-term debtors and capital expenditure are considered trivial for this year’s audit. Audit testing on short-term debtors and capital expenditure transactions has found no issues this year either so no extrapolated errors to consider here this year.

### Impact of unadjusted misstatements

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

| Detail | Comprehensive Income and Expenditure Statement £‘000 | Statement of Financial Position £’ 000 | Impact on total net expenditure £’000 | Reason for not adjusting |
|---|---|---|---|---|
| **National Non-Domestic Rates (NNDR)**<br>Our audit testing identified a difference between the NNDR system reports and the Councils ledger for NNDR Receipts in Advance due to timing differences in the collection of cash. | Dr - £948 | Cr – (£948) | £948 | Not material |
| **Teachers' Pension Contributions**<br>Our audit testing identified that the figure disclosed at Note 32 for teachers' pension contributions of £5.726m was incorrect. The value that should have been included in the accounts was £6.030m | Dr - £304 | Cr – (£304) | £304 | Not material |
| **Grant Income Testing**<br>Our audit testing of grant income identified four instances where income included in the accounts did not agree to the supporting documentation. The net impact of the errors was that income was understated in the accounts. | Cr – (£502) | Dr - £502 | (£502) | Not material |

# Audit Adjustments

**Impact of unadjusted misstatements - continued**

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|---|---|---|---|---|
| **Cash and Bank**<br>Our audit testing of Cash and Bank identified that the School Bank Accounts had not been included on the Balance Sheet. The net impact of the error was that Cash and Bank had been understated in the accounts. | | Dr - £424<br>Cr – (£424) | Nil | Not material |
| **PPE Additions**<br>Our audit testing of PPE additions identified one instance where the value included in the Fixed Asset register did not agree to supporting documentation. The net impact of the error was that Land & Buildings had been understated in the accounts. | | Dr - £350<br>Cr – (£350) | Nil | Not material |
| **PPE Revaluations**<br>Our audit testing of PPE revaluations identified three instances where the revalued GBV of the asset did not agree to the supporting documentation. The net impact of the errors was that Land & Buildings had been overstated in the accounts. | Dr - £329 | Cr - £329 | £329 | Not material |
| **Operating Expenditure – Cut Off**<br>Our audit testing of expenditure identified two errors where expenditure had not been accrued at the year end. The net impact of the errors was that expenditure had been understated in the accounts | Dr - £308 | Cr – £308 | £308 | Not material |

# Audit Adjustments

### Impact of unadjusted misstatements - continued

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|---|---|---|---|---|
| **PPE Additions**<br>Our audit testing of PPE additions identified that an AUC asset was incorrectly included as an addition in 2018/19, when it should have been an addition in the previous financial year. This also resulted in PPE Opening Balances being understated at the beginning of 2018/19.<br>The overall net impact of the error was nil, however PPE additions in 2018/19 were overstated and PPE opening balances were understated. | | Dr - (£382)<br>Cr - £382 | | Not material |
| **Short Term Creditors**<br>Our audit testing of creditors identified one error where the creditor balance has been over-accrued at year-end. The balance related to an asset held within AUC at year-end. The net impact of the error was that short-term creditors had been overstated and PPE closing balances overstated. | | Creditors Dr - £350<br>PPE Cr - £350 | | Not material |
| **Long Term Loans – Arrangement Fees**<br>Our audit testing of Financial Instruments in relation to IFRS 9 expected credit losses identified errors where the arrangement fee income received on the drawdown of long-term debtor loans provided by the Council has been recognised as income in full in the year of the first loan drawdown. This should have been capitalised under IFRS 9 and amortised over the length of the corresponding loans.<br>The net impact of the error was that short-term creditors re deferred income had been understated and General fund reserve balances overstated. | | Reserves Dr - £1,765<br>Creditors Cr - £1,765 | | Not material |
| **Overall impact** | **£1,387** | **(£1,387)** | **£1,387** | **Not material** |

# Fees

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

| Audit fees | Proposed fee £ | Final fee £ |
|---|---|---|
| Group and Council audit | £97,916 | £382,416 |
| Certification of Housing Benefits subsidy | £7,652 | £11,000 |
| **Total audit fees (excluding VAT)** | **£191,928** | **£393,416** |

The scale fee set by Public Sector Audit Appointments Ltd (PSAA) for 2017/18 financial statement audit was £97,916. Since that time, there have been several local risk factors and national developments, which have significantly increased the cost of delivering the Council's audit. These are set out in more detail on the next page.

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 a firm, we are absolutely committed to meeting the expectations of the FRC regarding audit quality and public sector financial reporting.

Our fee variation has been discussed with the s151 officer and will be reviewed and approved by PSAA.

# Fees

| | |
|---|---|
| **Scale fee published by PSAA** | **£97,916** |
| ***Ongoing increases to scale fee first identified in 2018/19*** | |
| Enhanced audit quality control and enhanced audit reporting due to the Council be categorised as a Public Interest Entity | £9,500 |
| Raising the bar/regulatory factors | £15,000 |
| Enhanced audit procedures for Property, Plant and Equipment including appointment of auditor expert (Wilks Head Eve) | £17,000 |
| Enhanced audit procedures for Pensions including impact of McCloud judgement | £9,000 |
| Other audit scope impacts, e.g. group accounts | £10,000 |
| ***Other local factors for 2018/19*** | |
| Additional procedures for going concern | £6,000 |
| Additional risk-based VFM work (MRP, compliance with Prudential Code, governance over commercial investments, financial reporting) | £77,000 |
| Additional procedures in relation to Birchwood Park investment | £25,000 |
| Additional procedures in relation to Redwood Bank investment | £30,000 |
| Additional procedures in relation to subsequent events including assessment of impairments in Redwood Bank and Together Energy investments and appointment of company valuation and restructuring experts | £26,000 |
| Additional procedures in relation to IFRS 9 – classification of long-term debtors and assessment of expected credit losses | £25,000 |
| Financial reporting issues – technical support required | £15,000 |
| Other audit quality measures due to local audit risk factors, e.g. support partner and risk panels | £20,000 |
| ***Proposed increase to 2018/19 scale fee*** | ***£284,500*** |
| **Total 2018/19 audit fees (excluding VAT)** | **£382,416** |

# Fees

Our fees for grant certification cover only housing benefit subsidy certification, which in 2018/19 fell under the remit of Public Sector Audit Appointments Limited.

Fees in respect of other grant work in 2018/19, such as reasonable assurance reports, are shown under 'Fees for other services' below.

| **Fees for other services** | **Fees £** |
|---|---|
| Audit related services: | |
| • Teachers' Pension certification | 3,000 |
| Non-audit services: | |
| • CFO Insights | 9,583 |
| **Total non-audit fees** | **£12,583** |

Up to the date of signing the 2018/19 auditor report, please note that we have also charged £146,800 for grants certification (Housing Benefits Subsidy and Teachers Pension) work for the financial years 2019/20, 2020/21, 2021/22 and 2022/23.

We have also proposed but not yet charged fees of c.95,000 for grants certification work for the 2023/24 financial year. This work has not yet started.

In 2020, we were engaged by the Department of Transport to perform a review of bus and light rail operator grant applications. One of which was a submission by Warrington Borough Transport Ltd (WBTL). WBTL is wholly-owned subsidiary of the Council. We do not audit WBTL but the accounts are consolidated into the Group accounts. The work is part of a much wider remit covering all bus and light rail operators in the UK. We nominally allocated £5,000 of the total fee charged to the Department of Transport for the work in relation to the WBTL grant application.

We have considered whether the fees charged for non-audit services up to the date of signing the 2018/19 auditor report have threatened our independence. As the total fee for non-audit services during this extended period remains below the proposed fee for statutory audit services, we do not believe our independence has been impaired.