The Annual Audit Letter for Wirral Council

Year ended 31 March 2020

9 March 2021

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Wirral Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Risk Management Committee as those charged with governance in our Audit Findings Report on 11 January 2021.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £11,181,000, which is 1.5% of the Council's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 18 January 2021. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and investment properties and the property assets of its pension fund. This uncertainty arises due to the difficulties of reaching an appropriate valuation during the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were not satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources because of weaknesses in it's financial planning and sustainability. The Council faces an increasingly difficult financial position. It set an initial budget for £273m for 2019/20, with planned use of £4.5m of reserves and £7m of capital receipts. It subsequently increase the budget to £277m but was only able to achieve this planned outturn by utilising a further £20.5m from reserves. In total, £25.2m of reserves were utilised with £7m being added back into reserves. As at 31 March the Council's general fund reserves were only £10m, the minimum level deemed appropriate by the Council. This is not a sustainable position and the Authority now has limited reserves to call upon to balance its budget going forward. The Council is forecasting a budget deficit of £14.774m in 2020/21. The Medium Term Financial Strategy 2021 sets out a £40m to £61.7m budget gap over the next five years. It applied for a capitalisation directive to provide support to the Council for 2020/21 and 2021/22 in order to balance its budget. Since the completion of our audit the Council has obtained approval for the capitalisation directive from MHCLG for 2020/21 and provisional approval for 2021/22. The capitalisation directive will allow the Council to avoid implementing emergency saving measures in these years. However, this is only a temporary measure and the Council will need to make substantial savings in the next few years to return to establish a sustainable financial position. We consider that these matters are evidence of weakness in proper arrangement for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. We therefore issued an adverse value for money conclusion in our audit report to the Council 18 January 2021.
Certificate	We certified that we have completed the audit of the financial statements of Wirral Council in accordance with the requirements of the Code of Audit Practice on 17 February 2021.

Working with the Council

Restrictions for not essential travel has meant that both Council and audit staff have had to adapt to the challenges of new remote working arrangements to carry out the audit, for example remote accessing financial systems, video calling, physical verification of assets and completeness of accuracy of information produced by the entity. The financial statements were produced with the use of the CIPFA toolkit for the first time which enabled the finance team to share supporting working papers with the audit team remotely.

Meetings have been held virtually using Microsoft teams with Senior Officers, including the Chief Executive regularly throughout the audit and we have attended the virtual Audit and Risk Management Committee meetings throughout the year.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

Grant Thornton UK LLP
March 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £11,181,000, which is 1.5**%** of the Council's gross cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £20,000 due to the sensitivity of disclosures in this area.

We set a lower threshold of £559,000, above which we reported errors to the Audit and Risk Management Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we have: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 28 August 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • engaged the use of auditor experts for higher risk (Cat 1/Cat 2) audited bodies	We obtained sufficient audit assurance to conclude that: • Financial forecasts and the cashflow analysis of the Council supports the ability for the Council to prepare the accounts on a going concern basis • We have included an Emphasis of Matter paragraph highlighting material uncertainties with regard to the valuation of land and buildings, investment properties and pension fund property due to the issues raised by the Council's valuers in their valuation reports. The issues raised are common across all Council's valuations. The use of an Emphasis of Matter paragraph is not indicative of any control weaknesses, it simply reflects the valuer's conclusions that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings The Council revalues its land and buildings on a rolling five yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£645m as at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements in 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. Furthermore since we issued our Audit Plan, the impact of the Covid-19 pandemic has resulted in material uncertainties on the net liability valuation.	As part of our audit work we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code were met • used our own valuation expert Wilkes Head and Eve to evaluate the terms of the engagement for the valuer and valuation report produced by the Valuer • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.	The Council uses its own In-House Valuer to value its Land and Buildings. The Valuer prepared their valuations in accordance with the RICS Valuation – Global Standards using their existing knowledge of the Council's property portfolio. A sample of 20% of the assets as per the rolling programme and those considered to be of high value were revalued as at the 31 March 2020 with the Valuer undertaking site visits in order to carry out their valuations. For the remainder of the assets (£30m Net Book Value) an assessment of the expected movement values was performed, using the results of the sampled revaluations and knowledge of the market conditions both nationally and locally during the period up to 31 March 2020. We have considered the movements in valuation and carried out the procedures set out above, including comparison of movements since the previous valuation with appropriate Market Movement indices. This provided assurance that valuation movements are in line with expectations and based on reasonable assumptions. The valuation certificate stated that the total assets value as at 31 March 2020 was £522m, which included the net book value of the Co-op Bebington High School which converted to Academy status from its previous Foundation status during 2019/20. The asset is no longer reflected in the Balance Sheet and Council's Fixed Asset Register and should not have been included within the total assets value in the valuation certificate. Testing confirmed that the asset had been correctly removed and a revised valuation certificate has been issued.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	Findings and conclusions
Valuation of land and buildings - continued	**Disclosures regarding material valuation uncertainty** The outbreak of Covid 19 has caused uncertainty in property markets. Whilst the valuer did not make reference to this in the Valuation Certificate, following discussions held with the valuer, it was confirmed that the RICS Valuation – Global Standards had been adhered to and the potential impact of the Covid-19 pandemic acknowledged, leading to consequently, less certainty and a higher degree of caution being attached to the valuation than would normally be the case. As a result, the valuer has included reference to a material valuation uncertainty in the revised valuation certificate. The material valuation uncertainty has been disclosed in Note 5 Estimation and Uncertainty of the financial statements. We consider the disclosure is sufficiently detailed to meet the requirements of the accounting standards and that it is important to a readers understanding of the financial statements. As such, we drew attention to the uncertainty through the inclusion of an Emphasis of Matter paragraph within the audit report. This does not constitute a qualification of the audit opinion. We are satisfied that the value of Property, Plant and Equipment is not materially misstated within the financial statements.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of net pension liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£472m in the Council's balance sheet at 31 March 2020) and the sensitivity of the estimate to changes in the key assumptions. We have therefore identified valuation of the Council's pension fund net liability as a significant risk which is one of the most significant assessed risks of material misstatement. Furthermore since we issued our Audit Plan, the impact of the Covid-19 pandemic has resulted in material uncertainties on the net liability valuation.	As part of our audit work we have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the information provided by the Council to the actuary to estimate the liability • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • tested the consistency of the pension fund asset liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • assessed the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud and Guaranteed Minimum Pension cases. • undertaken 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. • obtaining assurances from our audit of the 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	The fund managers for the Pension Fund's pooled investment reported that valuations of these investments were subject to 'material valuation uncertainty' as at 31 March 2020, as result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. As approximately 13.47% of the Pension Fund's assets are attributable to the Council as the administering authority for the Fund, this material uncertainty impacts in turn upon the valuation of the net defined benefit liability in the Council's balance sheet. The Pension Fund Auditor has included an emphasis of matter in the audit report drawing attention to a material valuation uncertainty relating to the Fund's property portfolio. This has resulted in additional disclosures in the Council's financial statements for Note 5 – Assumptions made about future and other major sources of estimation uncertainty. We included an emphasis of matter paragraph in the auditor's report drawing attention to this material valuation uncertainty. This does not constitute a qualification of the audit opinion. MHCLG is consulting on a remedy for the McCloud judgment that we reported upon last year. The Council's actuary has made assumptions in respect of the liability to reflect the proposed remedy. At whole fund level, the Council's actuary expect the McCloud remedy to have a negligible cost impact and on these grounds we are satisfied that no amendments or disclosures are required.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we completed; • Evaluated the design effectiveness of management controls over the journals; • Analysed the journals listings and determined the criteria for selecting high risk unusual journals; • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness; • Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regards to corroborate evidence; • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions	Our review of the journals posted during the year identified that a large number of journals are both posted and authorised by the same person which is considered a risk of management override of controls. Whilst our testing of a sample of journals did not give rise to evidence of management override of controls, we recommended that the Council should review its journal controls processes to reduce the risk in this area. The Council has already taken action for the 2020/21 financial year and has introduced controls over journal processing.
The revenue cycles includes fraudulent transactions Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA (UK) 240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited • The culture and ethical framework of local authorities, including the Council and Fund, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for the Council's accounts.	We have; • Evaluated the Council's accounting policy for recognition of revenues for appropriateness • Performed substantive testing on material revenue streams; and reviewed unusual significant transactions. Our audit work has not identified any issues in respect of improper revenue recognition.

Audit of the Financial Statements

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19 We worked with management to understand the implications which the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations which ultimately remained the same. We also liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose.	In response to this risk we: • worked with management to understand the implications the response to the Covid-19 pandemic had on the pension fund's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 28 August 2020; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the asset valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • engaged the use of an auditor's experts to assist with our assessment of the disclosure of directly held property valuations.	As detailed against the other affected significant risk areas, we extended and enhanced audit procedures in areas considered to be particularly at risk, such as Level 3 asset valuations and Directly Held Property as a sub sector of the same. We also enhanced our procedures around Information Produced by the Entity (IPE) to ensure that technology such as screen sharing and video calls were utilised to gain additional assurances over reports produced by the entity where lockdown restrictions meant we could not be physically present or in relation to prime documents where there may have been considered a risk of manipulation. As referred to in more detail under the valuation of directly held property significant risk, the Fund's direct property valuers have declared a *'material uncertainty*' in relation to their valuation as at 31 March 2020. The Fund have appropriately disclosed this material uncertainty in Note 5 of the accounts as well as providing a sensitivity analysis to allow users of the accounts to assess the potential impact that changes in the valuation of these assets can have on the net assets of the fund. We have therefore included of an Emphasis of Matter paragraph highlighting the valuation material uncertainty disclosures associated with the Fund's direct property holdings as a result of Covid-19. Our opinion is not modified in this respect.

Audit of the Financial Statements

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	In response to this risk we have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	As a result of the pandemic and remote working arrangements, additional scrutiny was applied to IPE (as previously described) and we ensured that journals designed to affect financial performance at year end were included in our sample. We do not have any concerns to report in this area.
The revenue cycle includes fraudulent transactions (rebutted)	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the Council as the Administering Authority of Merseyside Pension Fund, mean that all forms of fraud are seen as unacceptable.	Our assessment in this area has not changed during the course of audit work performed on the 2019/20 draft financial statements. Therefore we do not consider this to be a significant risk for Merseyside Pension Fund. Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect.

Audit of the Financial Statements

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of level 3 investments	In response to this risk we have: • evaluated management's processes for valuing Level 3 investments • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code were met • independently requested year-end confirmations from investment managers • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreed these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period • tested revaluations made during the year to see if they had been input correctly into the Pension Fund's financial records • where available reviewed investment manager service auditor report on design effectiveness of internal controls.	Our testing of level 3 investments indicated that the balance was overstated. This is principally a function of the timing of the production of financial statements and the particular challenges faced in the markets in March 2020. Per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash which are then assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the audit date. We would typically expect to see a number of small variances as a result of this, usually netting out to a below trivial (and therefore non reportable) variance. The higher than usual variance is indicative of the wider uncertainty in the markets at the balance sheet date, but is not a material difference and does not indicate any weakness in management's arrangements for estimating investment values at year end. The factual overstatement error identified in our sample testing is £16.021m. We have extrapolated this error across the remainder of the population which was not tested and determined an extrapolated uncertainty of £30.741m. As the figure is an extrapolation it is not possible to adjust for it and management have determined not to undertake additional work to quantify exact differences on the basis that the difference is not material. Management has disclosed within Note 5 of the accounts the impact that Covid-19 has caused in adding a further degree of uncertainty to the year end values recorded in the financial statements. Management also confirmed that the investment managers for the funds have factored an adjustment for Covid-19 into their valuations.

Audit of the Financial Statements

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of Directly Held Property .	In response to this risk we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • independently requested year-end confirmations from investment managers, evaluated the competence, capabilities and objectivity of the valuation expert • discussed with the valuer the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Fund's valuer's report and the assumptions that underpin the valuation. • tested, on a sample basis, revaluations made during the year to ensure they had been input correctly into the Fund's financial records. • in addition to the stated procedures per our audit plan, in response to wider market uncertainty relating to property valuations, we have engaged an auditor's expert (in this case, a firm of RICS qualified surveyors) to assess the instructions provided to the valuer in comparison to the requirements from CIPFA / IFRS / RICS and also to assess the valuation methodology and approach, resulting assumptions adopted and any other relevant points.	As a result of the Covid-19 pandemic, the Fund's valuers have declared a 'material uncertainty' in relation to their valuation as at 31 March 2020. This is in response to the global impact of Covid-19 generating an unprecedented set of circumstances on which Savills have had to base their valuation, and as a result they declared that a higher degree of caution should be attached to the valuation than would normally be the case. This material uncertainty is being declared by the majority of RICS compliant valuers nationally and is not specific to the Fund. The Fund have made appropriate reference to this 'material uncertainty' within Note 5 to the accounts. They have assessed the potential impact to the Fund and have provided a sensitivity analysis to allow users of the accounts to assess the potential impact that changes in the valuation of these assets can have on the net assets of the fund. We have therefore included of an Emphasis of Matter paragraph highlighting the valuation material uncertainty disclosures within the Fund's financial statements associated with the Fund's direct property as a result of Covid-19. Our opinion is not modified in this respect.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 18 January 2021.

Preparation of the financial statements

The Council presented us with draft financial statements in August in accordance with the agreed timescale and all information and explanations requested from management was provided.

We did experience significant difficulties in obtaining adequate evidence to support our testing. This is predominately as a result of remote working due to the Covid-19 pandemic and the Council staff not having access to physical documentation due to certain Council buildings remaining closed during the pandemic period.

In addition there have been difficulties with the Finance team providing the audit team with complete and cleansed financial populations from which our sample testing is selected. This has resulted in requests for further information and sample testing to ensure adequate assurance has been obtained.

The Council had invested during 2019/20 in the CIPFA toolkit in order to produce a Code compliant set of financial statements with supporting working papers. Whilst we were able to initially retrieve working papers from the toolkit, we did not find the use of this tool led to a more efficient audit, however we acknowledge that this was the first year of implementation and therefore would expect to have a greater understanding of the capabilities of the tool in the coming year.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Risk Management Committee on 11 January 2021.

In addition to the key audit risks reported above, we identified the following issues and adjustments throughout our audit that we have asked the Council's management to address for the next financial year:

- **Financial Instruments** – The accounting treatment for the £10m new investment in the Public Sector Social Impact Fund. Management adjusted the accounts for the audit findings.
- **Comprehensive Income and Expenditure Statement** – Inclusion of Internal recharges.
- **Existence of vehicles, plant and equipment** – Items of vehicles no longer in existence.
- **Onerous contract in relation to the PFI liability** – As a result of the closure of the former Kingsway Academy School, the Council still has a contractual obligation to make the PFI unitary payments to the PFI Partner, Wirral Schools' Services Ltd.

The details for these issues are attached in Appendix B.

Audit of the Financial Statements

Annual Governance Statement and Narrative Report
We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in August 2020

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Pension fund accounts We gave an unqualified opinion on the pension fund accounts of Merseyside Pension Fund on 18 January 2021. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit and Risk Management Committee on 11 January 2021.

Whole of Government Accounts (WGA)
We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council did not identify any issues for the group auditor to consider on 29 January 2021.

Certificate of closure of the audit
We certified that we have completed the audit of the financial statements of Wirral Council in accordance with the requirements of the Code of Audit Practice on 17 February 2021.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in January 2021, we agreed recommendations to address our findings.

Overall Value for Money conclusion

Because of the significance of the matters we identified in our work, we were not satisfied that the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan
Financial planning and sustainability – summary The Council faces an increasingly difficult financial position. It set an initial budget for £273m for 2019/20, with planned use of £4.5m of reserves and £7m of capital receipts. It subsequently increase the budget to £277m but was only able to achieve this planned outturn by utilising a further £20.5m from reserves. In total, £25.2m of reserves were utilised with £7m being added back into reserves. As at 31 March the Council's general fund reserves were only £10m, the minimum level deemed appropriate by the Council. This is not a sustainable position and the Authority now has limited reserves to call upon to balance its budget going forward. We note that the Council consider that the majority of reserves were used for non-recurrent expenditure. For 2020/21 the Council is forecasting a budget deficit of £14.774m. We reported in our Audit Findings Report that without the Government's agreement to a capitalisation directive the Council was likely to incur a significant deficit in 2020/21 and would need to use the majority of its remaining available reserves to balances its revenue budget. Similarly, for 2021/22 we reported that if the capitalisation directive was not approved, that the Council may need to issue at s114 notice under the Local Government Finance Act 1988 and restrict all new expenditure. Looking forward, the Medium Term Financial Strategy 2021 sets out a £40m to £61.7m budget gap over the next five years. Since the completion of our audit the Council has obtained approval for the capitalisation directive from MHCLG for 2020/21 and provisional approval for 2021/22. The capitalisation directive will allow the Council to avoid implementing emergency saving measures in these years. However, this is only a temporary measure and the Council will need to make substantial savings in the next few years to return to establish a sustainable financial position. It is important that the Council continues to take every action possible in the coming months to reduce its expenditure, and the likelihood of a deficit, in 2020/21. We note that it also putting in place plans to reduce its expenditure in 2021/22. The capitalisation directive will only provide support to the Council for 2020/21 and 2021/22. As such the Council needs to ensure that it delivers against its revised Medium Term Financial Strategy. It will need to put in place clear plans to reduce its future recurring service expenditure and move to a balance revenue position that does not rely on reserves.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	March 2020
Audit Findings Report	December 2020
Annual Audit Letter	March 2021

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	146,445	173,734	139,095
Audit of Merseyside Pension Fund	34,049	44,356	30,399
Total fees	**180,494**	**218,093**	**169,494**

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £123,095 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Fee variations are subject to PSAA approval.

Area	Reason	Fee proposed
Pensions – IAS 19	The Financial Reporting Council (FRC) has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	3,500
Increased FRC challenge and reduced materiality	We have reduced the materiality in response to the increased challenge by the FRC.	8,000
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	9,350
New accounting standards	We have done additional work with regard to changes to various accounting standards	2,500
Impact of Covid-19 on the audit	The impact of Covid-19 on the audit of the financial statements includes increased review of management's assumptions and estimates; Increased work on the Council's financial resilience assessment, and remote working - we have needed to put additional resources into the audit	20,000
Value for money	Due to the Council's current financial position we have input additional time into the Value for Money assessment	4,500
Other	Specific issues which have required increased audit time, such as internal recharges, accounting for pooled investments, and coding of debits and credits.	2,789
Total		50,639

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
- Certification of Teachers Pension Return	4,500
- Certification of Housing Benefit Claim	17,800
- IAS 19 Procedures for other bodies admitted to the pension fund (£875 per letter x 14 letters)	12,250
- Investigation and reporting of the objection raised to the Council's 2015/16 accounts	15,082
Non-Audit related services	
- CFO insight subscription	12,500

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 table above summarises all non-audit services which were identified.

- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

B. Other Issues arising from the audit of the financial statements

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

Issue	Commentary	Auditor view
IFRS 16 implementation has now been delayed by two years Although the implementation of IFRS 16 has been further delayed to 1 April 2022 audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases	Management disclosed in Note to the financial statements the title, date of initial application and the nature of changes in accounting policy which would arise from IFRS 16. Management has estimated that the impact based on current operating lease non-cancellable obligations is £2.1m which will be brought onto the balance sheet for 2021/22. This would be immaterial to the financial statements based on current materiality.	Due that the implementation of the standard has been further delayed we will look to review the work completed by management in relation to IFRS 16 in the next financial year. The emphasis of our review will be on whether the balance identified for recognition on the balance sheet is complete and not understated.
Existence of vehicles, plant and equipment The Balance Sheet includes £14.5m of vehicles, plant and equipment which is disclosed separately in Note 14 to the financial statements. To gain assurance over the existence of this balance, our audit approach involves testing a sample of the assets for proof of existence through physical verification.	The audit testing carried out identified one item of vehicles, plant and equipment which could not be located and resulted in extending the sample of assets tested. The outcome of this additional testing was that a further three assets could also not be located. As a result of the audit testing Management carried out a review of the vehicles, plant and equipment recorded on the Council's fixed asset register which resulted in assets to the value of £895k which have been identified as no longer in existence.	The value of the assets no longer in existence is above trivial but below materiality. Management have made the decision not to adjust as the value does not materiality misstate the accounts. The fixed asset register and accounts will be corrected in 2020/21. We recommend a review of the fixed asset register is carried out in 2020/21 to ensure that it accurately represents the assets owned by the Council.

B. Other Issues arising from the audit of the financial statements

Issue	Commentary
Financial Instruments The Council invested £10m in a new pooled investment fund during 2019/20, the Public Sector Social Impact Fund. The fund has been set up by Warrington Borough Council and Atlana Wealth and the Council considers this investment to be a long term strategic investment held to receive regular dividend income and not for growth or to sell. The purpose of the fund is to invest in UK based enterprises with a social impact space. The Council has an existing investment valued at £0.9m as at 31 March 2020 in the CCLA pooled investment vehicle.	Management made an irrevocable election, upon initial purchase in accordance with IFRS 9, to designate the investment as Fair Value through Other Comprehensive Income as it considered the investment to meet the definition of equity instrument. A review of the pooled investment fund was carried out and it was determined that the investment does not meet the definition of equity instrument. The equity Fair Value through Other Comprehensive Income designation is only available to the holder (the Council in this instance) if from the issuer's perspective the same instrument meets the definition of equity as defined by IAS 32. It is of our view that it does not due to the fact the Council will be able to demand the investment back at the end of the term of the investment period and the issuer cannot refuse. In our Audit Findings Report for 2018/19 we reported that our view was that the CCLA investment did not meet the definition of equity for the issuers and so the designation is inappropriate. At the time we considered the Council's treatment, which was based on external independent advice to be a departure from the Code, although these assets and related gains and losses were not material at the reporting date. This is still our view. We have discussed our views with management who have made the decision to adjust the accounts for these findings and to reclassify both the Public Sector Impact Fund and CCLA investments from Fair Value through Other Comprehensive Income to Fair Value through Profit and Loss
Comprehensive Income and Expenditure Statement – inclusion of internal recharges Our testing of the gross income and expenditure identified that internal recharges between Council service directorates have not been correctly netted off in the Comprehensive Income and Expenditure Statement (CIES). The inclusion of internal recharges results in the CIES not complying with the Code as internal recharges do not meet the definitions of income and expenses because they are not an inflow/outflow of economic benefit to and from the Council as a whole whose performance it is that is being reported. These internal recharges do not result in an increase or decrease in reserves.	Management has carried out an initial review of the Spreadsheet source of the General Ledger where adjustments are posted. This initial review identified £13m of internal recharges which were included in both the income and expenditure sides of the CIES. The impact of this is a material misstatement of a qualitative nature due to both the income and expenditure within the CIES being overstated. Our work in this area is still ongoing to gain sufficient assurance that the correct income and expenditure is disclosed in the Council's financial statements.

B. Other Issues arising from the audit of the financial statements

Issue	Commentary
Onerous contract in relation to the PFI liability As a result of the closure of the former Kingsway Academy School, the Council still has a contractual obligation to make the PFI unitary payments to the PFI Partner, Wirral Schools' Services Ltd. The Council currently includes this liability within the full balance of the lease liability of £39.6m. An agreement has been made with the Department of Education that it will support the Council for a period of three years once the school building returns to the Council's legal ownership by contributing towards the unitary payments, a total of £1.5m. There remains a shortfall for which the Council is liable for.	In our view this represents an onerous contract because the Council has unavoidable contractual costs for which it receives no service potential. The three year unitary payment apportioned to Kingsway Academy less the Department for Education's contribution should be recognised as a liability on the balance sheet with the costs charged to the CIES. The impact is that there is an under provision for the onerous contract which although is not material is estimated to be above trivial.