

Audit Findings Report

St Helens Metropolitan Borough Council

Year ended 31 March 2021

28 October 2021



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings 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. Its contents have been discussed with management and the Audit and Governance Committee.

Andrew Smith

Andrew Smith

For and on behalf of Grant Thornton UK LLP

28 October 2021

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of St Helens Metropolitan Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) 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 audit work was completed remotely between July and October. Our findings are summarised on pages 5 to 15.

There is one material adjustment of £12.2 million to the Council's Comprehensive Income and Expenditure Account and Balance Sheet to reflect an increase in the value of the Council's share of the investments in the Merseyside Pension Fund (MPF). This amendment arose as a result of the MPF obtaining an updated valuation of all investments in the Fund on 31 March 2021. Further details are provided on page 10.

We also identified one other audit misstatement during our testing of creditors. We found that a £22k creditor had been incorrectly raised for an overstatement of income rather than being a deduction against the debtor. We are required to extrapolate this sampling error across the population. The extrapolation estimated an overstatement of debtors and creditors £1.8m. Management have chosen not to adjust for the audit misstatement on the basis it is below materiality and is only an estimate.

There are also some minor disclosure and misclassification issues which are set out in Appendix C. We have also raised one recommendation for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is now substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters:

- clearance of final set of quality review points;
- receipt of signed management representation letter; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was issued to the Chair of the Audit and Governance Committee on 23 September 2021. We expect to issue our Auditor's Annual Report by December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. As part of our initial planning we identified two areas of risk. These were:

- a risk in respect of future financial sustainability to reflect the continuing uncertainty over future government funding, and
- the continuing risk of the effectiveness of the Council's delivery of children's social care services in light of the findings from the Ofsted inspection in 2019 and subsequent revisit.

We have also identified an additional risk in respect of:

- the adequacy of partnership governance arrangements in place over waste management services across Merseyside to drive forward improvements in economy, efficiency and effectiveness.

Our work on these areas of risk are underway and an update is set out in the value for money arrangements section of this report (see Section 3).

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Auditor's Annual Report in December 2021.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit and Governance Committee.

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

Audit approach

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

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 8 November 2021, as detailed in the committee papers. These outstanding items include:

- receipt of management representation letter; and
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

The impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as continuing with remote access working arrangements. This included remote accessing financial systems, video calling, physical verification of assets, verifying the completeness and accuracy of information remotely produced by the Council and access to key data from the Council.

These additional audit procedures were required to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements.

2. Financial Statements



Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan dated July 2021.

We include details in the table of our determination of materiality for St Helens Council.

Council Amount (£) Qualitative factors considered

Materiality for the financial statements	8,012,000	This equates to 1.8% of your gross operating expenditure for 2019/20 year and is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how the Council has expended its revenue and other funding.
Performance materiality	6,009,000	The performance materiality has been set at 75% of financial statement materiality. This reflects a standard benchmark based on risk assessed knowledge of potential for errors arising.
Trivial matters	400,600	This is the threshold for matters that are clearly inconsequential, whether taken individually or in aggregate. It is a standard benchmark set at 5% of materiality.
Materiality for senior officer remuneration	15,000	This is due to its sensitive nature, with the value based on the three times the salary bandings disclosed.

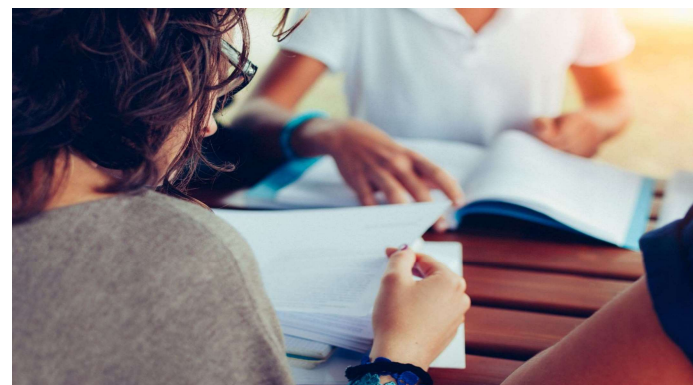


2. Financial Statements - Significant risks

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

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p>Management override of controls</p> <p>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.</p> <p>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.</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals population 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 applied made by management and considered their reasonableness regarding corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>From our review of all journals posted during the year, we identified 41 higher risk journals that warranted detailed audit testing. From testing carried out on these journals, there has been no evidence of inappropriate management override of controls through journals.</p> <p>Our commentary on key accounting estimates is set out on pages 11 to 15. We found accounting policies to be appropriate.</p>



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

ISA240 revenue and expenditure recognition risk – Council risk (rebutted)

Revenue

ISA (UK) 240 includes a rebuttable presumed risk that revenue recognition 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 240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted because:

- there is little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including St Helens Council, mean that all forms of fraud are seen as unacceptable

Although the risk of fraud is rebutted, we recognise the risk of error in revenue recognition and this is addressed through the responses to risk detailed across.

Expenditure

In the public sector, whilst it is not a presumed significant risk, in line with the requirements of Practice Note (PN) 10: Audit of financial statements of public sector bodies in the United Kingdom - we also consider the risk of whether expenditure may be misstated due to the improper recognition of expenditure.

This risk is rebuttable if the auditor concludes that there is no risk of material misstatement due to fraud relating to expenditure recognition.

Based on our assessment we consider that we are able to rebut the significant risk in relation to expenditure, but will nevertheless, and in line with PN10, recognise the heightened inherent risk of 'other service expenditure' in our audit scoping and testing assessment.

The revenue and expenditure recognition risks have been rebutted. Despite revenue and expenditure recognition not being a significant risk we still undertook the following procedures to ensure that revenue and expenditure included within the accounts is materially correct. To gain this assurance we:

- evaluated the Council's accounting policies for income and expenditure recognition for appropriateness and compliance with the Code
- updated our understanding of the Council's system for accounting for income and expenditure and evaluated the design of relevant controls
- undertook detailed substantive testing on the income and expenditure streams in 2020/21
- documented our understanding of the full nature of additional Covid-19 related income and expenditure
- reviewed the accounting treatment of all new income and expenditure streams to confirm that they have been accounted for appropriately in line with the Code and accounting standards

Our testing of a sample of year end creditors identified a £22k factual error where a creditor was raised for an overstatement of income, rather than being a deduction against the debtor. We are required to extrapolate this classification error to assess the potential impact on the statement of accounts. The estimated error across the population we tested is an overstatement of debtors and creditors of £1.8 million. This is reported as an unadjusted audit misstatement in Appendix C. Management have chosen not to adjust the accounts for this projected error as it falls well below materiality and it is only an estimated error with the factual error being small. We accept that it is reasonable not to adjust the accounts in such circumstances.

We have no other matters to bring to your attention.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings - £252m

The Council re-values its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£252m valuation in the Councils 2020/21 financial statements) 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 is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

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
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at the year end
- reviewed whether the expert valuer had reported any material uncertainty in relation to property valuations at 31 March 2021 and, if so, assessed the impact on disclosures in the financial statements and on our audit opinion.

The Council's valuations have not been reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards, except in respect of retail and specific trading related assets and sectors. At the valuation date, due to the unprecedented set of circumstances caused by Covid-19 and an absence of relevant/sufficient market evidence on which to base judgements, valuations of these specific assets are reported as being subject to 'material valuation uncertainty'. The Council has included disclosures in relation to estimation uncertainty at Note 2 in the financial statements. As the value of retail and specific trading related assets are not material this does not affect our opinion on this matter.

Our audit work has not identified any other issues in respect of valuation of land and buildings (see page 11 for further commentary on estimates used by management).

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of the pension fund net liability - £349.6m

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit pension liability, represents a significant estimate in the core financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£350m in the Council's 2020/21 balance sheet) and the sensitivity of the estimate to changes in key assumptions.

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.

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.

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.

In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the 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 Council's pension fund net liability as a significant risk.

Commentary

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 (the actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- 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; and
- obtained assurances from the auditor of the Merseyside Pension Fund (MPF) 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 Pension Fund Auditor's testing of Level 3 investments indicated that the balance in the MPF draft accounts was materially understated. This is principally a function of the timing of producing the draft financial statements, which are not based on a full actual valuation at the year end. As a result, the MPF obtained actual year end values for all Level 3 investments resulting in an increase in value of £135.920m.

St Helens share of the MPF investments is approximately 8.17% (as at the last triennial valuation on 31 March 2019). The Council requested an updated pension fund valuation at 31 March 2021 to determine the Council's share of the increased investment value. This resulted in an increase of £12.2 million which has been amended in the updated statement of accounts (further details are set out in Appendix C).

We also examined other assumptions when determining the accuracy of the net pension fund liability. Our findings are set out on page 12.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £249.4m net carrying value	<p>Other land and buildings comprises £197.9m of specialised assets 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 are not specialised in nature and are required to be valued at existing use in value £51.5 (EUV) at year end. The Council has engaged Wilks Head and Eve LLP (WHE) to complete the valuation of assets as at 31 March 2021 on a five yearly cyclical basis. 76.8% of land and building assets were revalued during 2020/21.</p> <p>In addition to the rolling programme, any single asset deemed as material is revalued every year to reduce the risk of non-valued assets. Management also review conditions that may impact non-valued assets, such as enhancements and obsolescence, and request for additional properties to be revalued if required.</p> <p>The Council's valuations have not been reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards, except in respect of retail and specific trading related assets and sectors. At the valuation date, due to the unprecedented set of circumstances caused by Covid-19 and an absence of relevant/sufficient market evidence on which to base judgements, valuations of these specific assets are reported as being subject to 'material valuation uncertainty'.</p> <p>The Council has included disclosures in relation to estimation uncertainty at Note 2. The valuation of properties valued by the valuer has resulted in a net loss on revaluation of £3.5m</p> <p>The total year end valuation of other land and buildings was £251.857m.</p>	<p>The Council's accounting policy on valuation of land and buildings is included in the Accounting Policies note which starts on page 59 of the financial statements.</p> <p>Key observations</p> <p>In line with RICS guidance, WHE has identified a material uncertainty regarding the valuation of retail and specific trading related assets and sectors due to market uncertainty arising from the Covid-19 pandemic. Management have disclosed this as a major source of estimation uncertainty in Note 2 to the financial statements. The value of these assets is £7.3m and therefore not material to our opinion.</p> <p>We assessed the qualifications, skills and experience of the valuer and determined the service to be appropriate.</p> <p>The underlying information and sensitivities used to determine the estimate was considered to be complete and accurate.</p> <p>The valuer prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates.</p> <p>We have uplifted assets not revalued in the period using Gerald Eve indices and considered management's assessment that there has been no material changes to the valuation of land and buildings not revalued in year.</p> <p>We consider the level of disclosure in the financial statements to be appropriate.</p> <p>Conclusion</p> <p>We are satisfied that the estimate of your land and buildings valuation is not materially misstated.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £337.4m	<p>The Council's net pension liability at 31 March 2021 is £337.393m (PY £290.768m) comprising the Merseyside Local Government Pension Scheme and Teachers Pension Scheme benefit obligations.</p> <p>The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. The net pension liability has increased by £46.625m during 2020/21.</p>	<p>In understanding how management has calculated the estimate of the net pension liability we have:</p> <ul style="list-style-type: none"> assessed the use of a management's expert actuary; assessed the actuary's calculation approach used PwC as auditors expert to assess actuary and assumptions made by the actuary (see table below). <table> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> <tr> <td>Discount rate</td><td>2.1%</td><td>2.1-2.2%</td><td>●</td></tr> <tr> <td>Pension increase rate</td><td>2.7%</td><td>2.7% for most employers</td><td>●</td></tr> <tr> <td>Salary growth</td><td>4.2%</td><td>3.95% - 4.2%</td><td>●</td></tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td><td>22.6 21</td><td>22.5 – 24.7 20.9 – 23.2</td><td>●</td></tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td><td>26 24.1</td><td>25.9 – 27.7 24 – 25.8</td><td>●</td></tr> </table> <ul style="list-style-type: none"> examined the completeness and accuracy of the underlying information used to determine the estimate undertook a reasonableness test of the Council's share of LGPS pension assets assessed the reasonableness of the increase in estimate assessed the adequacy of the disclosure of the estimate in the financial statements confirmed there have been no changes to the valuation methodology since the previous year, other than the updating of key assumptions above. <p>Conclusion</p> <p>The net pension liability has reduced by £12.2 million as a result of the increase in the valuation of the fund assets as noted on page 10 (see Appendix C for details of the adjustment).</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.1%	2.1-2.2%	●	Pension increase rate	2.7%	2.7% for most employers	●	Salary growth	4.2%	3.95% - 4.2%	●	Life expectancy – Males currently aged 45 / 65	22.6 21	22.5 – 24.7 20.9 – 23.2	●	Life expectancy – Females currently aged 45 / 65	26 24.1	25.9 – 27.7 24 – 25.8	●	We consider the estimate in the draft accounts to be materially misstated
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.1%	2.1-2.2%	●																								
Pension increase rate	2.7%	2.7% for most employers	●																								
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Life expectancy – Females currently aged 45 / 65	26 24.1	25.9 – 27.7 24 – 25.8	●																								

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provision for NNDR appeals - £12.419m	<p>The Council is liable for successful appeals against business rates charged to business in 2020/21 and earlier financial years in their proportionate share. A provision has therefore been made for the best estimate of the amount that businesses have been overcharged up to 31 March 2021.</p> <p>The Council uses data provided by the Valuation Office Agency (VOA) on historic appeals and analyses this data to estimate the likely success of outstanding appeals. The data is sense checked and a wider analysis of provision levels is undertaken across local authority groups to provide assurance that provision levels appear reasonable.</p> <p>The provision has increased by £1.6m in 2020/21.</p>	<ul style="list-style-type: none"> We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate. We have considered the approach taken by the Council to determine the provision, and it is in line with that used by other local government bodies Disclosure of the estimate in the financial statements is considered adequate. There have been no changes to the calculation method this year. 	We consider management's process is appropriate and key assumptions are neither optimistic or cautious
Investment Properties - £13.621m	<p>The Council has a number of assets that it has determined to be investment properties.</p> <p>Investment properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between market participants at the measurement date). The fair value of the Council's investment property is measured annually at each reporting date. The valuations have been carried out by external valuers, Wilks, Head and Eve LLP.</p> <p>The year end valuation of the Council's investment property was £13.621m, a net increase of £2.989m from 2019/20.</p>	<ul style="list-style-type: none"> We have no concerns over the competence, capabilities and objectivity of the internal valuation expert used by the Council. The valuer has agreed clear terms of reference for this work with the Council in advance of the work being performed, including within which were the assumptions that were going to be applied to this work The valuer revalued £9.4m out of £13.6m investment properties as at 31 March 2021. The valuer also provided commentary on trends in values since the previous Council investment market review to 31 March 2020, rather than a full valuation of the investment portfolio at 31 March 2021. Management also completed an assessment on those investment properties not subject to revaluation. We have considered the potential movements in the valuations at the valuation date of 1 April 2020 and the 31 March 2021. This work has not raised any issues with the 2020/21 valuations. We recommend that an annual revaluation of all investment properties is completed in line with the requirements of the CIPFA Code (see recommendation in the Action Plan in Appendix A). 	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Grants Income Recognition and Presentation - £339m</p> <p>Due to the Covid-19 pandemic there has been a significant increase in the level of Covid related grant funding with associated complexity and management judgement required. This has comprised a mix of discretionary and non discretionary schemes. The majority has been grants to business including £26.5m Small Business Grant Fund including Retail, Hospitality and Leisure.</p>	<p>Management take into account three main considerations in accounting for grants:</p> <ul style="list-style-type: none"> whether the authority is acting as the principal or agent and particularly whether it controls the goods or services before they transfer to the service recipient. Management's assessment needs to consider all relevant factors such as who bears credit risk and responsibility for any overpayments, who determines the amount, who sets the criteria for entitlement, who designs the scheme and whether there are discretionary elements. whether there are conditions outstanding (as distinct from restrictions) that would require the grant to be recognised as receipt in advance, otherwise grant should be recognised as income whether the grant is a specific or non-specific grant. General un-ringfenced grants are disclosed on the face of the CIES, whereas ringfenced grants are required to be credited to service revenue accounts. <p>There may be significant judgements over the accounting treatment. Different conclusions may be reached by authorities depending on how they have applied any discretion in administering the schemes - are these judgements reasonable and sufficiently disclosed to meet the requirements of IAS 1:125? Audit teams need to consider how they are satisfied that the Council's judgement is reasonable based on the terms of the grant and how they have applied it.</p>	<p>We completed sample testing on grant income, considering;</p> <ul style="list-style-type: none"> whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income the impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. the adequacy of disclosure of judgement in the financial statements. <p>The Council assessed the major business support grant programmes administered during the financial year to determine whether the Council was acting as principal (where the Council had discretion over the amount of funding to award or the criteria for who could be awarded funding) or agent (passing money to businesses on behalf of government).</p> <p>In acting as principal, the Council carried forward any unspent balances on these grants to 2021-2022 as receipts in advance. Where the Council acts as an agent, any unspent balances are carried forward as a creditor.</p> <p>We are satisfied that the Council's judgement is reasonable based on the terms of the grant and how they have applied it.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision (MRP) - £3.126m	<p>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 regulations and statutory guidance.</p> <p>The year end MRP charge was £3.126m, a net increase of £186k from 2019/20.</p>	<p>The Councils MRP has been calculated in line with the statutory guidance</p> <p>Cabinet approved the annual MRP policy in February 2020 which remains unchanged from prior years.</p> <p>We assessed the reasonableness of the approach taken by the Council in calculating MRP in comparison to other authorities. Our analysis identified the Council is charging a minimum revenue provision of 1.76% of its capital financing requirement as at 31 March 2021. A benchmark of 2% is generally regarded as appropriate charge as it reflects MRP being charged across an approximate asset life of 50 years as an average.</p> <p>The underlying reason for the overall charge below 2% is the Council is charging MRP on an annuity basis for those supported assets (pre 2008 regulations) and also on certain regeneration assets. This approach is allowable under statutory guidance and results in a lower MRP charge in earlier years and a higher charge in later years. Whilst allowable, this method does push more of the burden of debt repayment into the future.</p> <p>The Council should continue to examine the appropriateness of its MRP policy to ensure it is making sufficient charge to general fund. It should consider future affordability in using the annuity basis which results in increasing MRP charges in later years.</p>	<p>We consider the estimate to be materially accurate however management's estimation process contains assumptions we consider to be at the optimistic end of our acceptable estimate range.</p>

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Audit and Governance Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to bank and investment counterparties. This permission was granted and the requests were sent and returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided. Our findings are subject to the satisfactory completion of our work and the matters set out on page 5.

2. Financial Statements - other communication requirements



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).

Issue	Commentary
Going concern	<p data-bbox="871 464 2056 603">In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p data-bbox="871 619 2016 673">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="871 689 2074 986" style="list-style-type: none"> • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p data-bbox="871 1002 2056 1141">Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul data-bbox="871 1157 1973 1300" style="list-style-type: none"> • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. <p data-bbox="871 1316 2051 1339">On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="871 1355 2051 1447" style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • if we have applied any of our statutory powers or duties • where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. <p>We have nothing to report on these matters at this stage. The Value for Money work is underway and not due to be completed until December 2021.</p>



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	As the Council does not exceed the reporting thresholds, we are not required to carry out specified procedures on behalf of the National Audit Office (NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of St Helens Council in the audit report due to VFM work which remains in progress. As communicated in the audit plan, we intend to complete our VFM work and issue our Auditor Annual Report within three months of signing the opinion on the financial statements.

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

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



Financial Sustainability

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



Governance

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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

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



Key recommendation

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



Improvement recommendation

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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was issued to the Chair of the Audit and Governance Committee. We expect to issue our Auditor's Annual Report by the end of December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risks set out in the following tables and have performed further procedures. Our findings to date are set out on pages 21 to 27.

Risk of significant weakness	Procedures undertaken	Commentary
<p>Financial resilience</p> <p>The impact of Covid-19 and continuing uncertainty over future government funding means the Council continues to face future financial uncertainty. Pressures going forward include increasing demand for social care, economic recovery from the pandemic and the achievement of strategic objectives.</p> <p>The Council's Medium Term financial strategy 2021/24 indicates a potential £33.4m cumulative budget gap over the 3 year period with proposed savings options of £24.8m over the same period.</p> <p>Although these financial projections are subject to significant planning uncertainty the Council recognises the urgent need to progress savings options into the medium term to close future funding gaps</p>	<p>Our work included:</p> <ul style="list-style-type: none"> • reviewing the in-year budget monitoring reports and outturn • reviewing the Council's assessment of the Covid-19 impact and how the 2021/22 budget is being managed in the light of this. • reviewing the MTFs 2021-24 and 2021/22 budget projections • examining the progress the Council is making for developing future savings and efficiencies to close any medium term funding gaps 	<p>The Council is operating within a financially challenging environment, particularly within the context of continuing austerity. It set a one-year budget for 2020/21 (approved in March 2020, and prior to the Covid-19 global pandemic) which recognised areas of demand led pressures, particularly in children's social care, and reductions in income generation. The budget included the requirement to deliver £5m savings and a £5m contribution from reserves to arrive at a balanced budget position.</p> <p>The outbreak of the Covid-19 coronavirus pandemic had a significant impact on the normal operations of the Council and led to substantial financial pressures. As 2020/21 progressed the government provided additional £10.7m emergency funding, £4.3m compensation for losses in sales, fees and charges and a number of other Covid related funding streams. Increased cost pressures in response to the pandemic included significant spend in adult care, support for early years, tackling homelessness, provision of community food hubs and personal protective equipment for front line workers.</p> <p>The Council continued to monitor the impact of the revenue budget and the impact of Covid-19 pressures through regular financial monitoring reports to Cabinet. This was extremely challenging against the changing levels of restrictions and piecemeal funding announcements. Reports provided the forecast outturn positions and the impacts arising from Covid-19.</p> <p>The Council reported a pre-audit overall revenue outturn underspend of £3.5m for 2020/21. The outturn position is one-off in nature, due to the exceptional circumstances arising from Covid-19 and reflects the net position after the application of Covid-19 funding to cover the additional expenditure and losses of income directly related to the pandemic. The underspend of £3.5m has increased the level of General Fund Balances and meant the Council did not need to use its reserves, as set out in the original budget.</p>

3. VFM - our procedures and conclusions

Risk of significant weakness	Procedures undertaken	Commentary
<p>Financial resilience</p> <p>The impact of Covid-19 and continuing uncertainty over future government funding means the Council continues to face future financial uncertainty. Pressures going forward include increasing demand for social care, economic recovery from the pandemic and the achievement of strategic objectives.</p> <p>The Council's Medium Term financial strategy 2021/24 indicates a potential £33.4m cumulative budget gap over the 3 year period with proposed savings options of £24.8m over the same period.</p> <p>Although these financial projections are subject to significant planning uncertainty the Council recognises the urgent need to progress savings options into the medium term to close future funding gaps.</p>	<p>Our work included:</p> <ul style="list-style-type: none"> • reviewing the in-year budget monitoring reports and outturn • reviewing the Council's assessment of the Covid-19 impact and how the 2021/22 budget is being managed in the light of this. • reviewing the MTFS 2021-24 and 2021/22 budget projections • examining the progress the Council is making for developing future savings and efficiencies to close any medium term funding gaps 	<p>General Fund reserves, including earmarked reserves, have increased to £95.581m as at 31 March 2021, (£61.052m at 31 March 2020). Within earmarked reserves is:</p> <ul style="list-style-type: none"> • a Covid-19 funding reserve of £28.553m, which provides resource cover for the Collection Fund forecast deficit in 2021-22 as a result of the terms of the Governments Extended Retail, Hospitality and Leisure Scheme; • a Transformation reserve of £18.377m, set aside for changes in service delivery and an upfront pension payment to the Merseyside Pension Fund; and • a new Funding Reform Volatility reserve of £5.227m for future resilience against future funding and finance risks. <p>The Council updated its Medium-Term Financial Strategy (MTFS) in February 2021 which covers a 3 year period from 2021-24 and includes its revenue and capital budget 2021/22. The MTFS sets out the financial challenge faced by the Council and identifies a potential funding gap of £33.4m over the 3 year period with £13.44m falling in 2021/22. Proposed savings options have been developed in setting the 2021/22 budget with a cumulative gap of £8.6m still to be identified from 2022/23 onwards.</p> <p>The latest financial monitoring report for 2021/22 (reported Jul 21) shows £3.218m (24%) of the £13.44m savings are potentially at risk or may not be delivered in the year. The Council acknowledges that it is essential that it continues to identify and implement robust action plans to ensure savings remain on track. Any additional slippage on savings would create a significant financial risk.</p>

3. VFM - our procedures and conclusions

Risk of significant weakness	Procedures undertaken	Commentary
<p>Financial resilience</p> <p>The impact of Covid-19 and continuing uncertainty over future government funding means the Council continues to face future financial uncertainty. Pressures going forward include increasing demand for social care, economic recovery from the pandemic and the achievement of strategic objectives.</p> <p>The Council's Medium Term financial strategy 2021/24 indicates a potential £33.4m cumulative budget gap over the 3 year period with proposed savings options of £24.8m over the same period.</p> <p>Although these financial projections are subject to significant planning uncertainty the Council recognises the urgent need to progress savings options into the medium term to close future funding gaps.</p>	<p>Our work included:</p> <ul style="list-style-type: none"> • reviewing the in-year budget monitoring reports and outturn • reviewing the Council's assessment of the Covid-19 impact and how the 2021/22 budget is being managed in the light of this. • reviewing the MTFS 2021/24 and 2021/22 budget projections • examining the progress the Council is making for developing future savings and efficiencies to close any medium term funding gaps 	<p>The MTFS 2021/24 includes a reserves strategy and projected future reserves position based on approved commitments and anticipated spend and income through to 2024. The Council is looking to rebuild its reserves to provide future financial resilience whilst having sufficient resources to deliver its priorities. It has set a £12m minimum unallocated general fund reserve as part of its reserves strategy.</p> <p>The Council continues to face future financial pressures from ongoing Covid-19 expenditure and reductions in income levels together with the demand for social care. The Council has recognised that to achieve local economic recovery from the pandemic, and achieve strategic objectives it will need to identify and deliver cash savings and cost reductions. The Council acknowledges this will require ongoing strategic prioritisation, improvement and service transformation to balance its budget over the longer term.</p> <p>Overall whilst there are ongoing financial pressures we consider the Council's financial management arrangements are sound. The Council acknowledges that it is essential that it continues to identify and implement robust action plans to ensure savings remain on track. It will need to ensure it is clear on service prioritisation, areas of improvement focus and develop longer term transformational plans to ensure a balanced budget and delivery of financial stability in the future.</p> <p>Our work is in progress and we will report our updated findings in the Auditor's Annual Report.</p>

3. VFM - our procedures and conclusions

Risk of significant weakness	Procedures undertaken	Work performed to date
<p>Ofsted Inspection of Children's Social Care Services</p> <p>The Council received an “Inadequate” Ofsted rating for its children’s social care services in 2019. The Ofsted monitoring visit in 2020 confirmed that good progress had been made but the Council still had a way to go to secure sustained improvements in the effectiveness of children’s social care services.</p> <p>During 2020/21 the Council agreed areas of improvement focus with the Secretary of State for Education and has reported improvement in a range of services.</p>	<p>Our work included:</p> <ul style="list-style-type: none"> • examining feedback from the Department for Education (DfE) intervention unit and Ofsted • considering findings from the Ofsted focused visit in May 2021 • reviewing progress made against the actions set out in the Children’s Improvement Plan • examining the Council’s governance arrangements in place for monitoring and reporting improvements 	<p>Following the 2019 Ofsted inspection and 2020 monitoring visit, the Council has continued to work on areas of improvement focus agreed with the Secretary of State for Education. The Council is subject to ongoing review from the DfE Intervention Unit and regular monitoring by Ofsted.</p> <p>During 2020/21, the Council have made significant additional investment into the Children’s Services budget which has increased social worker capacity. It has developed a Placement Sufficiency Strategy to help improve the effectiveness of planning for children in care and the availability of high-quality care placements to meet their needs.</p> <p>The Children’s Improvement Board and Scrutiny Committee provide regular monitoring and oversight on progress against the Improvement Plan implemented in response to the Ofsted findings. Internal Audit completed a review of the adequacy of governance arrangements in place in relation to the monitoring and reporting on the Improvement Plan and gave a high level of assurance.</p> <p>DfE’s 6 monthly feedback report on progress (January 2021) confirmed that Children’s Services have responded extremely well to the challenges faced in dealing with the pandemic. The report included positive progress in areas including:</p> <ul style="list-style-type: none"> • a strong response to Covid-19 and putting into practice innovative ideas to adapt to the challenging situation • first-class support to schools and face to face contact maintained with vulnerable children and young people • strong political and corporate leadership and commitment to put children and young people at the forefront of everything the Council is doing.

3. VFM - our procedures and conclusions

Risk of significant weakness	Procedures undertaken	Work performed to date
<p>Ofsted Inspection of Children's Social Care Services</p> <p>The Council received an “Inadequate” Ofsted rating for its children’s social care services in 2019. The Ofsted monitoring visit in 2020 confirmed that good progress had been made but the Council still had a way to go to secure sustained improvements in the effectiveness of children’s social care services.</p> <p>During 2020/21 the Council agreed areas of improvement focus with the Secretary of State for Education and has reported improvement in a range of services.</p>	<p>Our work included:</p> <ul style="list-style-type: none"> examining feedback from the Department for Education (DfE) intervention unit and Ofsted considering findings from the Ofsted focused visit in May 2021 reviewing progress made against the actions set out in the Children’s Improvement Plan examining the Council’s governance arrangements in place for monitoring and reporting improvements 	<p>The DfE report noted the Council had refined its Children’s Improvement Plan during 2021 which provided an effective focus for driving and monitoring service improvement and delivering better outcomes for children and young people. Improvement was noted in service delivery, practice, and performance, highlighting the ongoing drive and commitment to improve services for local children, young people, and families.</p> <p>DfE highlighted some areas which required further improvement including; further reducing the numbers of children in care, the numbers of children in need, the high re-referral rates, and the high rate of S47 (safety and welfare) investigations. It was noted that St Helens remains as a lower quartile performer for re-referral rates and children cared for numbers compared to statistical neighbours.</p> <p>Monitoring by Ofsted continued in 2020/21 with a focussed restart visit in May 2021 to examine social work practice during the period of the pandemic. The visit covered the children’s services (ILACS) framework and also included performance management, quality assurance information and children’s case records.</p> <p>The visit confirmed some areas of improvement required in social work practice. These were:</p> <ul style="list-style-type: none"> the quality of decision-making to progress plans for children within the pre-proceedings element of the Public Law Outline, and the management oversight of this

3. VFM - our procedures and conclusions

Risk of significant weakness	Procedures undertaken	Work performed to date
<p>Ofsted Inspection of Children's Social Care Services</p> <p>The Council received an “Inadequate” Ofsted rating for its children’s social care services in 2019. The Ofsted monitoring visit in 2020 confirmed that good progress had been made but the Council still had a way to go to secure sustained improvements in the effectiveness of children’s social care services.</p> <p>During 2020/21 the Council agreed areas of improvement focus with the Secretary of State for Education and has reported improvement in a range of services.</p>	<p>Our work included:</p> <ul style="list-style-type: none"> examining feedback from the Department for Education (DfE) intervention unit and Ofsted considering findings from the Ofsted focused visit in May 2021 reviewing progress made against the actions set out in the Children’s Improvement Plan examining the Council’s governance arrangements in place for monitoring and reporting improvements 	<ul style="list-style-type: none"> the quality and effectiveness of the case audit activity to inform leaders of the impact of social work interventions on children’s progress and lived experience. the balance of social workers’ workloads and the prioritisation of tasks by social workers and managers to avoid any unnecessary drift and delay for children in need of support, help and protection. <p>A further DfE 6 monthly review is planned during 2021 to provide a benchmark to evidence progress made since the Restart Visit. The date of this has not yet been confirmed.</p> <p>Overall, Children’s services have continued to improve during 2020-21 but there are still areas where the Council needs to make further progress. Our work is in progress and we will report our updated findings in the Auditor’s Annual Report.</p>

3. VFM - our procedures and conclusions

Risk of significant weakness

Work performed to date

Waste management services across Merseyside

Since presenting our audit plan, we have identified a further risk of significant weakness relating to waste management.

Financial and operational challenges face all authorities across the country due to rising levels of residual waste as a result of changing behaviours during the pandemic. In addition, recycling rates in the borough and across Merseyside remain well below the national average.

We are reviewing the partnership governance arrangements between the collection authorities and the disposal authority regarding the strategic direction on waste. Ineffective partnership working may lead to poor strategic decisions that fail to address the financial and environmental challenges.

We are currently reviewing the arrangements in place to manage performance on waste collection and the effectiveness of strategic waste partnership working across Merseyside.

This work is underway and will be reported in our Auditors Annual Report.

4. Independence and ethics

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

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.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. No non-audit services were identified which were charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	14,700	<p>Self-Interest (because this is a recurring fee)</p> <p>Self review (because GT provides audit services)</p>	<p>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 £14,700 in comparison to the total fee for the audit of £139,282 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.</p> <p>To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.</p>
Certification of Teachers Pension Return	6,000	<p>Self-Interest (because this is a recurring fee)</p> <p>Self review (because GT provides audit services)</p>	<p>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 £6,000 in comparison to the total fee for the audit of £139,282 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.</p> <p>To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.</p>

Appendices

A. Action plan – Audit of Financial Statements

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	<p>Investment properties revaluation (page 13)</p> <p>The Council's valuer revalued £9.4m out of £13.6m investment properties as at 31 March 2021. The valuer provided commentary on trends in values since the previous Council investment market review 31 March 2020, rather than a full valuation of the investment portfolio at 31 March 2021.</p> <p>Management also completed an assessment on those investment properties not subject to revaluation.</p> <p>The Council should ensure it formally revalues all of its investment properties on an annual basis in line with the requirements of the Code. This minimises the risk of those assets not revalued being materially misstated at the balance sheet date.</p>	<p>We recommend that an annual revaluation of all investment properties is completed in line with the requirements of the CIPFA Code.</p> <p>Management response</p> <p>The Code requires that the fair value of investment properties shall reflect market conditions at the end of the reporting period. For those properties that were not subject to a full individual revaluation for 2020/21 the Council's valuers provided a market review commentary advising that market movements would have a minimal effect on their attributable values, being less sensitive to in year market changes.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of St Helens Council's 2019/20 financial statements, which resulted in 3 recommendations being reported in our 2019/20 Audit Findings report.

We have followed up on the implementation of our recommendations and note the progress made to address the issues raised in the table.

Assessment

- ✓ Action completed
- ✗ Not yet fully addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Off-ledger adjustments</p> <p>The ledger transaction listings provided as part of the income and expenditure testing did not reconcile to the draft financial statements due to a number of transactions being processed outside of the financial ledger.</p> <p>We recommended that the number of transactions processed outside of the ledger are minimised and the ledger is updated regularly to reflect these adjustments.</p>	<p>The only transactions which are not included in the ledger relate to Employee Benefits IAS 19 adjustments. The Council are of the view that due to the nature of the transaction this is still considered appropriate to do so.</p>
✓	<p>General fund reserves</p> <p>General fund reserves as at 31 March 2020 were £61.1m, or 14% of the Council's gross expenditure. Reserves levels are becoming low and there is a risk that the Council will need to use reserves to address budget gaps in 2020/21 and 2021/22 unless mitigating action is taken.</p> <p>The Council needs to continue to identify and deliver efficiencies and reduce discretionary services to replenish reserves over the medium term.</p> <p>Failure to do so over the next few years may mean that the Council is unable to withstand any future economic shocks.</p>	<p>General Fund reserves, including earmarked reserves, have increased to £95.581m as at 31 March 2021. Within earmarked reserves is a Covid 19 funding reserve of £28.553m, set aside for future Covid-19 pressures, a Transformation reserve of £18.377m, set aside for changes in service delivery and an upfront pension payment to the Merseyside Pension Fund, and a new Funding Reform Volatility reserve of £5.227m for future resilience against future funding and finance risks.</p> <p>The Council recognises the magnitude of financial pressures it faces and is committed to a challenging programme of service review and transformation to maintain financial sustainability, resilience and align service changes to the Council's priorities and transformation agenda.</p> <p>The MTFS 2021/24 includes a reserves strategy and projected future reserves position based on approved commitments and anticipated spend and income through to 2024. The Council is looking to rebuild its reserves to provide future financial resilience whilst having sufficient resources to deliver its priorities.</p> <p>See full detailed commentary on progress during 2020/21 in the value for money section of this report (Section 3).</p>

B. Follow up of prior year recommendations

We identified the following issues in the audit of St Helens Council's 2019/20 financial statements, which resulted in 3 recommendations being reported in our 2019/20 Audit Findings report.

We have followed up on the implementation of our recommendations and note the progress made to address the issues raised in the table.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Children's social care services</p> <p>The Council received an "Inadequate" Ofsted rating for its children's social care services in 2019. The Council has since taken considerable steps to address the findings of the 2019 Ofsted inspection. The latest Ofsted monitoring visit in 2020 confirmed good progress had been made but the Council still has a way to go to secure sustained improvements in the effectiveness of children's social care services. There is also a need to improve the economy and efficiency of the service.</p> <p>The Council should continue to make progress against the ILACS action plan and identify ways to reduce costs in respect of Looked After Children and to achieve improved value for money in relation to care costs.</p>	<p>Management responded that the Council has made a very significant commitment to improving the services for children, including a reduction in caseloads and has made revision to the systems, processes and resources that will seek to reduce looked after costs, deliver better service outcomes and value for money.</p> <p>See full detailed commentary on progress during 2020/21 in the value for money section of this report (Section 3).</p>

Assessment

- ✓ Action completed
- ✗ Not yet fully addressed

C. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Pension Fund's auditor's testing of level 3 investments indicated that the balance was understated by £92m. The Fund obtained updated values of all investments as at 31 March 2021 resulting in an increase in the value of investments of £135.920m. St Helens' share of pensions asset is 8.97% therefore this is an understatement of pension fund assets of £12.2 million.	£12,236	£12,236	£12,236
Overall impact	£12,236	£12,236	£12,236

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit.

Disclosure and misclassification changes	Details	Adjusted?
Critical judgements	We do not believe that some of the disclosures made meet the definition of critical judgements as defined by the CIPFA Code. We therefore recommend that some of the disclosures are removed.	✓
Estimation uncertainty	We do not believe that some of the areas disclosed have material levels of estimation uncertainty. We therefore recommend that some of the disclosures are removed. We understand that management wish to retain the disclosures and therefore no adjustment has been made.	X
Financial instruments (note 39)	Whilst the disclosures in the draft accounts complied with IFRS 9 at a basic level through the inclusion of additional narrative, we believe minor enhancements could be made to the format of the disclosure to improve clarity.	X
Provisions (note 37)	The Council have provided additional disclosure for the increase/decrease in provisions in line with requirements of the Code (ref 8.2.4.2).	✓

C. 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.

Misclassification and disclosure changes

Disclosure and misclassification changes	Details	Adjusted?
Audit fees	Amount of audit fees disclosed in Note 23 have been updated to include the additional fee of £58,350 as set out in the Audit Plan, which have now been approved by PSAA.	✓
Expenditure and Funding Analysis	Place Services Directorate (£56,423) and Children & Young People Services Department (£43,506) figures are not consistent with CIES and EFA working paper. Correct figures are Place Services Directorate - £56,451 and Children & Young People Services Department - £43,478.	✓

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit and 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
Our testing of a sample of year end creditors identified a £22k factual error where a creditor was raised for an overstatement of income, rather than being a deduction against the debtor. This extrapolates to an estimated overstatement of debtors and creditors £1.8m.		ST debtors decrease 1,800 ST creditors decrease 1,800	nil	Extrapolated misclassification error is below materiality and factual error is small.
Overall impact	£nil	£nil	£nil	

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Pension Fund's auditor's testing of level 3 investments indicated that the balance was overstated. The factual overstatement error identified is £16.021m, extrapolated to £30.741m. St Helens' share of the asset is 8.17% therefore this is a factual error of £1.3m and extrapolated error of £2.5m.	2,511	(2,511)	2,511	Extrapolated error
Overall impact	2,511	(2,511)	2,511	

D. Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit fees	Proposed fee	Final fee
Council Audit	£139,282	TBC
Total audit fees (excluding VAT)	£139,282	TBC

Audit fees per financial statements (note 23) are £139k which reconciles to the proposed fee in the audit plan of £139,282.

PSAA wrote to s151 officers in August 2021 to inform them of an additional £5.6m of funding being made to local government bodies for the additional costs of 2020/21 external audits. St Helens Council will be receiving £15,970 of this allocation. In addition, the Ministry of Housing, Communities and Local Government (MHCLG) is distributing a further £15m in relation to 2020/21 external audit fee costs. St Helens Council is due to receive £41,721 of this allocation. In total, the Council is receiving additional funding of £57,691. This funding offsets 99% of the cost difference between our proposed fee and the PSAA scale fee.

Final fees are yet to be confirmed. We have informed management that there were delays in receiving some audit evidence, which has led to additional audit time. We have also informed management of an additional VFM risk relating to waste management. Once the audit is concluded, we intend to discuss a further fee variation with management to cover the cost of the additional audit time in relation to these issues. In percentage terms, we estimate that the fee variation will be less than 10% of the proposed fee.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Housing Benefits	£14,700	£14,700
Certification of Teachers Pension	£6,000	£6,000
Total non-audit fees (excluding VAT)	£20,700	£20,700

Grant fees agree to note 23 financial statements.

