Annual Audit Letter

Wigan Metropolitan Borough Council

Year ending 31 March 2019

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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Wigan Metropolitan Borough Council for the year ended 31 March 2019. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	Our auditor's report issued on 30 July 2019 included our opinion that the financial statements: • give a true and fair view of the Council's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
Other information published alongside the audited financial statements	Our auditor's report issued on 30 July 2019 included our opinion that: • The other information in the Statement of Accounts is consistent with the audited financial statements.
Value for Money conclusion	Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.
Reporting to the group auditor	In line with group audit instructions issued by the NAO in June 2019, we plan to report to the group auditor in line with the requirements applicable to the Council's WGA return by the NAO deadline of 13 September 2019.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	**Unqualified**

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Council on 30 July 2019, stated that, in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit, Governance & Standards Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 1.75% of gross expenditure at the Surplus/Deficit on Provision of Services level.	£14.398m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.432m
Specific materiality	We have applied a lower level of materiality to the following area of the accounts: Senior manager remuneration	£5,000

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within the Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Significant risk	Description of the risk
Management override of controls	In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk We addressed this risk through performing audit work over: • Accounting estimates impacting on amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business, being the additional loan provided to Manchester Airport Holdings Limited; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion There are no significant matters arising from our work on the management override of controls.

2. AUDIT OF THE FINANCIAL STATEMENTS

Significant risk

Valuation of Property, Plant & Equipment

Description of the risk

The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued in a five year cycle.

The valuation of Property, Plant & Equipment involves the use of a management expert (the valuer), and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process.

As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value. In addition, as the valuations are undertaken through the year there is a risk that the fair value as the assets is materially different at the year end.

How we addressed this risk

We have:

- Critically assessed the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the Council's programme of revaluations;
- Considered whether the overall revaluation methodology used by the Council valuer is in line with industry practice, social housing statutory guidance, the CIPFA Code of Practice and the Council's accounting policies;
- Critically assessed the appropriateness of the underlying data and the key assumptions used in the valuer's calculations;
- Critically assessed the appropriateness of the social housing factor applied to the valuation of the Council Dwellings;
- Assessed the movement in market indices between the revaluation dates and the year end to determine whether there have been material movements over that time;
- Critically assessed the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice;
- Critically assessed the approach that the Council adopts to ensure that assets not subject to revaluation in 2018/19 are materially fairly stated; and
- Tested a sample of items of capital expenditure in 2018/19 to confirm that the additions are appropriately valued in the financial statements.

Audit conclusion

We have not identified any material matters to report regarding the valuation risk of land and buildings. We did identify that a management judgement was made not to reflect a valuation provided by the Council's valuer in the accounts . We reported this as an unadjusted misstatement of £2.256m. Management made this judgement because a significant level of capital expenditure was being spent on enhancing the asset during 2018/19 and 2019/20. Management prefer to account for the revaluation impact once the programme of works is completed.

2. AUDIT OF THE FINANCIAL STATEMENTS

Significant risk	Description of the risk
Valuation of Defined Benefit Pension Liability	The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2016. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2018/19.
	How we addressed this risk We have: • Critically assessed the competency, objectivity and independence of the Greater Manchester Pension Fund's Actuary, Hymans Robertson; • Liaised with the auditors of the Greater Manchester Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate; • Reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; • Reviewed the impact of the Guaranteed Minimum Pension and McCloud legal cases on the net pension fund liability; and • Agreed the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.
	Audit conclusion We have not identified any significant matters from our testing, and we have concluded that the Council's reported net defined benefit pension liability is materially fairly stated. We have reported a non-material estimation difference of £7.2m regarding the impact of Guaranteed Minimum Pension and McCloud legal cases. Management identified the impact following a revised actuarial valuation in July 2019.

Management judgement	
Valuation of investment in Manchester Airport Holdings Limited	**Description of the management judgement** The Council uses an external valuation expert to determine the value of its investment in Manchester Airport Holdings Limited at 31 March 2019. The valuation is determined according to a methodology and applying assumptions. Council officers challenge the valuation assumptions and reach judgements on the valuation to include in the financial statements.
	How our audit addressed this area of management judgement Mazars' in-house valuation team reviewed the methodology and key assumptions used by management's expert, considering the appropriateness of the methodology and the reasonableness of the assumptions used.
	Audit conclusion We have not identified any significant matters from our testing, and we have concluded that the Council's investment in Manchester Airport Holdings Limited is materially fairly stated.

Management judgement	
Accounting for The outstanding liability for the Wigan Joint Service Centre Private Finance Initiative (PFI) scheme	**Description of the management judgement** In 2011/12 the Council entered into a 25 year PFI arrangement for the Wigan Joint Service Centre. The outstanding liability relating to this scheme represents a material figure on the Council's balance sheet and is derived from a financial model that incorporates assumptions and estimates which impact materially on the reported value. There is a risk that the assumptions and methodology applied to calculate the accounting entries are not appropriate and given this is the first year of our appointment as your external auditors we will need to obtain assurance that accounting entries are not materially misstated.
	How our audit addressed this area of management judgement We have: • Reviewed the Council IFRIC 12 assessment and associated disclosures • Considered whether the accounting model reflects the operator's model and produces reliable results for the financial statements • Checked that outputs from the accounting model are correctly reflected in the financial statements, relevant disclosures have been made and these agree to supporting documentation.
	Audit conclusion We have not identified any significant matters from our testing, and we have concluded that the PFI Liability is materially fairly stated.

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

Description of deficiency	When schools convert to academy status the cash position should be agreed and concluded within four months of conversion and any balance due to the academy paid over by the Council. During our audit we identified five schools that had transferred during 2018/19 between 1 August and 1 December 2018 but where the cash position has yet to be resolved and monies due paid over to the school. Currently the amount to be paid over is estimated at £1.857m.
Potential effects	This amount is included in the Council's cash and bank balance at 31 March 2019 and as a result, the balance is overstated. There is a compensating understatement to the creditors balance.
Recommendation	The Council needs to improve the process for reviewing and resolving the cash balances to ensure the amount payable to the academy is confirmed and paid over in a more timely fashion and in line with the four months target.
Management response	Management have introduced new processes with clearer guidance for schools and finance staff to ensure a more timely agreement and transfer of balances.

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion	**Unqualified**

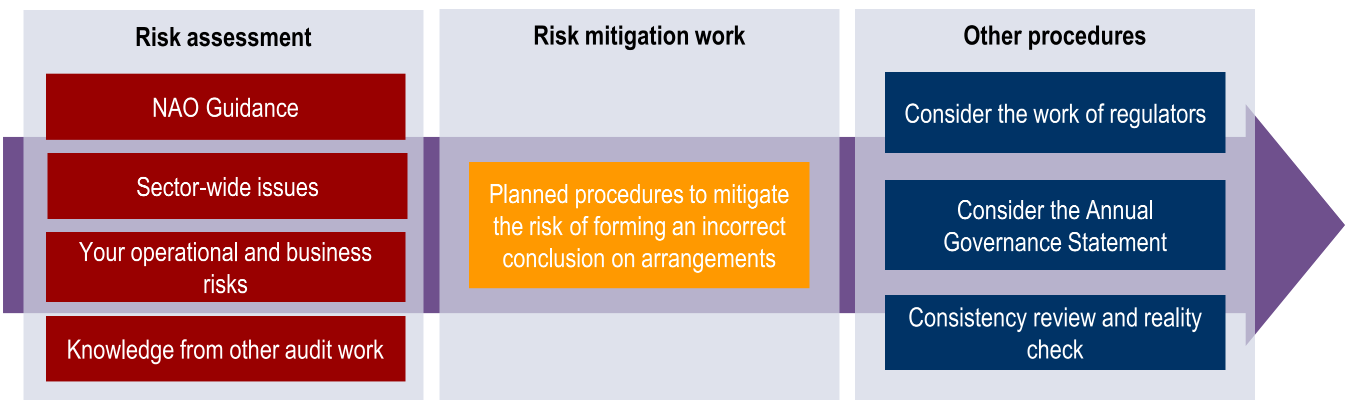
Our audit approach to value for money

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we have undertaken is provided below:



Significant value for money audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the value for money conclusion exists. Risk, in the context of our value for money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified two significant Value for Money risks relating to the financial budget pressures and health and social care integration.

Since issuing our Audit Strategy Memorandum the Council has undergone an Ofsted focussed visit on its Children's Social Care Services. The letter summarising the findings of the focussed visit was issued on 8 May 2019 and identified that issues and concerns about the quality, impact and effectiveness of assessments and plans, identified at the time of the last inspection in February 2017, have not been fully resolved, but confirmed that the new senior leadership team in children's social care has a good understanding of these issues. The letter identified a number of areas that require improvement. We have considered whether Ofsted's focussed visit findings indicate a significant Value for Money risk, and have concluded that they do not.

Our overall value for money conclusion

Our audit report dated 30 July 2019 provides an unqualified value for money conclusion for the 2018/19 financial year.

The work we carried out in relation to the significant risks is outlined overleaf.

Risk	Work undertaken	Conclusion
Financial Budget Pressures The Council's future budgets remain challenging with indicative efficiencies identified to deliver £26m efficiencies required in the next 3 years (£10.285m 19/20, £9.815m 20/21 and £5.855m 2021/22). The Council will also need to manage financial pressures in order to deliver a balanced revenue budget position over that period. At the end of quarter 2 of 2018/19 the Council reported an adverse variation of £4.245m, mainly due to delay in implementing the projects that sit behind the budget reduction plan along with service pressures within children services and increasing pressures round waste collection and disposal. The Council forecast that the implementation of corporate initiatives would mitigate the projected year end position for 2018/19. The continuing challenges the Council faces are not new and are not unique to Wigan Council. However, the challenges do present a significant audit risk in respect of considering the arrangements that the Council has in place to deliver financial sustainability over the medium term.	**Work undertaken** We reviewed the arrangements the Council has in place for ensuring financial resilience, specifically that the medium term financial plan has taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, and sensitivity analysis given the degree of variability in the above factors. We also reviewed the arrangements in place to monitor progress delivering the budget and related savings plans to address the budget gap to 2020. **Findings** The Council has effective arrangements in place to report on its financial position and forecasts, including pressures and actions being taken to address them. Despite some significant pressures reported during 2018/19, the Council reported forecast position of at least breakeven throughout the year and at 31 March 2019 achieved a small year end underspend of £0.3m against its revenue budget. The Council delivered its 2018/19 savings and efficiencies target of £12m. However, there remain a number of pressures, in particular in Children's Services due to demand pressures and delays in the delivery of its £5m target for transformational change and efficiencies. Whilst this does not destabilise the Council's overall financial position, the pressure has had to be offset by other savings and resources. The Council has robust arrangements in place for setting the annual revenue budget and updating the Medium Term Financial Strategy (MTFS). The Council also clearly recognises the risks to the forecasts associated with future funding uncertainties, including proposed "hard reset" of the business rate baselines and the fair funding review in 2020/21 which may have an adverse impact on the Council's funding streams. These were clearly articulated to members when considering and approving the MTFS in March 2019. Delivery of a balanced positon on the 2019/20 revenue budget requires delivery of corporate savings totalling £8.5m, which have already been identified and require no direct savings from front line services.	We conclude that for 2018/19 the Council has made proper arrangements to manage its financial budget pressures.

3. VALUE FOR MONEY CONCLUSION (CONTINUED)

Risk	Work undertaken	Conclusion
Health and Social Care Integration: Working with Partners The Wigan health and social care economy needs to find around £140m to balance the health economy by 2020. Wigan Council and NHS Wigan Borough CCG continue to work together to redesign the way health and social care services are delivered across the borough. Joint commissioning is operating in shadow form with a target to go live from 1 April 2019.	**Work undertaken** We reviewed the arrangements in place for the Council to work with its partners to deliver transformation and efficiencies in the provision of health and social care services and to bridge the forecast £140m gap by 2020. **Findings** Work to achieve closer Integration and joint working has continued under the Healthier Wigan partnership. During the year the Council's Deputy Chief Executive (Director of Resources and Contracts) was also appointed Chief Financial Officer of NHS Wigan Borough CCG. The Council's Chief Executive continued in the role of Accountable Officer of the CCG until her retirement in February 2019, since when the two organisations decided to re-establish separate posts for the Council Chief Executive and the CCG Accountable Officer. In February 2019 Cabinet endorsed proposals to establish a fully functioning Integrated Commissioning Committee (ICC) underpinned by a Section 75 Agreement, facilitating the pooling of circa £350m of health and social care budgets. This is seen as one of the key levers in meeting the vision of the Healthier Wigan Partnership, to have the whole health and care system working together, utilising the totality of resources available, to achieve improved outcomes for the people of Wigan Borough and the potential to make service design more tailored to local population needs. The ICC was established from April 2019 with its membership formed of CCG Governing Body Clinical Executives and Wigan Borough elected members. Its role is to set out the key priorities and principles of the pooled budget to ensure the necessary improvements in clinical and care outcomes as well as securing the financial sustainability of health and care services within the locality.	We conclude that for 2018/19 the Council has made proper arrangements to work with partners towards the integration of health and social care services and address the forecast financial gap by 2020.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**No matters to report**
Completion of group audit reporting requirements	**To be completed**
Other information published alongside the audited financial statements	**Consistent**

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data, and to carry out certain tests on the data. We plan to submit this information to the NAO by the 13 September 2019 deadline.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit, Governance & Standards Committee in January 2019.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£103,319	£103,919*

*The final fee includes an additional charge of £600 in respect of work undertaken on the pension liability regarding GMP and McCloud legal rulings. This is subject to approval by PSAA Ltd.

Fees for other work

We confirm that we have completed no non-audit engagement at the Council.

6. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (https://www.nao.org.uk/code-audit-practice/about-code/)

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

Financial Resilience

Government Spending Review

The Council will need to incorporate the outcome of the Spending Review in its Medium Term Financial Plan. The Government has announced that a one year spending review will be completed in September for 2020/21, with the next multi-year Government Spending Review being delayed until 2020. The Spending Review will set out the department allocations for 2020/21 and potentially beyond. Regardless of the timing and period covered by the Spending Review, the Council recognises the key issue is the management of general reserves to a level that ensures it remains financially resilient and able to deliver sustainable services. It must, therefore, ensure it clarifies and quantifies how it will bridge the funding gap through planned expenditure reductions and/ or income generation schemes.

Local Authority Financial Resilience Index

CIPFA is moving forward with its financial resilience index, which it believes will be a barometer on which local authorities will be judged. We would expect the Council to have at least considered the index once it is formally released.

Commercialisation

The National Audit Office will be publishing a report on Commercialisation during 2019. Depending on the Council's appetite for Commercialisation, we would expect the Council to consider the outcome of the report and ensure any lessons learnt are incorporated into business practice.

Further, the UK Debt Management Office's Annual Report, published on 23 July 2019, reported that, as at 31 March 2019, the Public Works Loan Board's loan book was £78.3 billion with 1,308 new loans totalling £9.1 billion advanced during the year. As a result, we expect local authorities to clearly demonstrate:

- the value for money in the use of Public Works Loan Board funds to acquire commercial property
- the arrangements for loan repayment through the updated Statutory Guidance on Minimum Revenue Provision in 2019/20, 2020/21 and beyond.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

Lease accounting

The implementation of IFRS 16 *Leases* in the Code is delayed until 1 April 2020. The Council will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

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