

Informing the audit risk assessment for Halton Borough Council 2023/24

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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 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 your business or any 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.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Halton Borough Council's external auditors and Halton Borough Council's Audit and Governance Board, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Board under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Governance Board. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Governance Board and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Governance Board in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Board and supports the Audit and Governance Board in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Local Authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Halton Borough Council's management. The Audit and Governance Board should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

| Question | Management response |
|---|---|
| <p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2023/24?</p> | <p>Funding provided from Government continues to fall behind the level of growth required for Council services.</p> <p>Demand led services, Children in Care, ASC Community Care, Schools Transport (EHCPs) have all seen an increase in demand which is driving the Council's cost base further above the level of funding available.</p> <p>Increased cost and demand on the High Needs budget has had a detrimental impact on the overspend relating to the Dedicated Schools Grant. The Council has had approved by Government the Delivering Better Values recovery program which will look to minimise the financial impact of High Need (SEN) demand on DSG over the medium term.</p> <p>Difficulties in staff recruitment and retainment is having a negative impact on the need to use additional agency staff, which impacts on cost and service delivery. This is most notable within children's social care, internal care homes and legal locums.</p> <p>The Council had growth of 4% in the budget to fund the 2023/24 pay award. The actual cost of the pay award was largely a flat rate of £1,925 paid across all grades. The actual increase in pay costs as a result of this was in the region of 6%, the additional 2% being unfunded and having an impact on the Council's outturn position.</p> <p>The lack of certainty for financial planning purposes of only having a one year Grant Settlement. Short term measures from Government in only notifying of Financial Local Government Settlement and grant award a matter of months before finalising future year budgets has also not helped with the Council's financial planning.</p> <p>During the year a performance review of the Mersey Gateway project was undertaken by Mersey Gateway Crossing Board (MGCB) and the Department for Transport (DfT). This review covered the period October 2017 to March 2023 and future reviews will be undertaken every 3 years.</p> |

General Enquiries of Management

| Question | Management response |
|---|--|
| <p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2023/24?</p> | <p>As part of the review an exercise was undertaken regarding the excess revenue share procedure. This identified that up to March 2023 the excess income from the project over and above project costs was £52.647m. The share to the Council of this amount is £7.897m, with £44.750 being repayable to DfT.</p> <p>Council agreed in February 2023 the establishment of the Transformation Programme. The programme formally commenced on 1 April 2023, and is an addition to the Council's establishment using a mix of seconded employees from other service areas and external expertise. The programme is funded through a capitalisation order of £7m across the period April 2023 to March 2026. The programme is tasked with identifying fundamental changes to the way services are delivered, in order to bring costs more in line with benchmark comparators and thereby provide sustainable efficiency savings of £4m, £8m and £8m which have respectively been included in the Council's 3 year budget forecast from 2024/25.</p> |
| <p>2. Have you considered the appropriateness of the accounting policies adopted by Halton Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p> | <p>The Council's accounting policies have been reviewed. There have been no events or transactions which have required changes to or the adoption of new accounting policies.</p> <p>There have been no events or transactions resulting in a change or adoption of new accounting policies.</p> |
| <p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p> | <p>There is use of financial instruments, but not derivatives. The policy on the use of financial instruments is reported to Council through the Treasury Management Strategy and reviewed through the Treasury Management monitoring process.</p> |
| <p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p> | <p>Capitalisation of spend on the Council's Transformation Programme took place during 2023/24.</p> |

General Enquiries of Management

| Question | Management response |
|---|---|
| 5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they? | None in which the Council are aware of. |
| 6. Are you aware of any guarantee contracts? If so, please provide further details | There are none |
| 7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details | None, other than what is included in the Statement of Accounts as a provision or contingent liability |
| 8. Other than in house solicitors, can you provide details of those solicitors utilised by Halton Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years? | Weightmans provided advice in respect of litigated insurance claims. Some of the claims relate to previous financial years. Weightmans primarily and other firms of solicitors, as well as legal Counsel are also utilised by the Council for specific legal matters. |

General Enquiries of Management

| Question | Management response |
|--|--|
| <p>9. Have any of the Halton Borough Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p> | <p>No.</p> |
| <p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p> | <p>PWC provided advice on VAT and CIS matters.</p> <p>Aon provided advice as the Council's insurance broker.</p> <p>MUFG (Mitsubishi UFG), formerly Link Asset Services provided treasury management advice during the year and provided information on the Financial Instruments note to the accounts.</p> <p>Innovate/external consultants and DFE continued to work with Children Services on Ofsted Improvement Plan.</p> <p>External consultants helped the Council submit an application for the Delivering Better Value Programme (High Needs mitigation).</p> <p>Consultants were in place to support the Councils 3 year Transformation Programme. LGA were engaged on a specific piece of work to help identify efficiencies within Adult Social Care.</p> <p>Rockford Associates were engaged to undertake a cost recovery audit focusing on duplicate creditor payments, unclaimed credits on supplier accounts, and VAT errors.</p> |
| <p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p> | <p>Credit loss provisions considered on an annual basis for both general and collection fund matters</p> |

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Board and management. Management, with the oversight of the Audit and Governance Board, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Board should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Halton Borough Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Governance Board regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Governance Board oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Board as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Halton Borough Council's management.

Fraud risk assessment

| Question | Management response |
|--|--|
| <p>1. Has Halton Borough Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Local Authority's risk management processes link to financial reporting?</p> | <p>The Council believes that there is minimal risk that the financial statements may be materially misstated due to fraud. This is because the Council has robust anti-fraud arrangements and the level of internal fraud is consistently low year on year. External fraud has generally tended to be of a low level attritional nature predominantly relating to Council Tax and Benefits.</p> <p>Staff responsible for preparing the financial statements are appropriately qualified and experienced and there is a rigorous quality assurance process to ensure the financial statements are free from material error.</p> <p>Internal Audit undertakes regular reviews of the core systems which provide the information used for the financial statements. This provides assurance that the systems and information contained therein are robust and there is limited risk of misstatement.</p> <p>The Council has robust arrangements in place for identifying and responding to the risk of fraud.</p> <p>There is an established risk management process and the risk of fraud to the organisation is considered as part of the Council's planning processes. Management Team reviews and monitors the Corporate Risk Register on a regular basis. The Audit & Governance Board also receives regular reports on the Council's corporate risk management arrangements and reviews the Corporate Risk Register. The risk of fraud is specifically acknowledged in the Council's Corporate Risk Register, which also details the measures that the Council has in place to deter fraud. The Audit & Governance Board regularly reviews the robustness of the Council's risk management arrangements.</p> <p>The Council has an established Anti-Fraud & Corruption Strategy, Fraud Response Plan and a Confidential Reporting Code (Whistleblowing Policy). These documents form part of the Council Constitution.</p> <p>Internal Audit considers the risk of fraud in each audit assignment. Internal Audit also undertakes periodic initiatives to raise fraud awareness amongst employees and members.</p> <p>Internal Audit includes an Investigations Team comprising three investigator posts. These posts provide a dedicated, council-wide fraud investigation resource to undertake fraud investigations.</p> |

Fraud risk assessment

| Question | Management response |
|---|--|
| <p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p> | <p>Housing Benefit and Council Tax Reduction Scheme claims are considered to be most susceptible to fraud. This is a national issue and not unique to Halton.</p> <p>Other areas at risk of fraud include:</p> <ul style="list-style-type: none"> • Insurance claims against the Council • Procurement • Supplier invoices, Bank mandate fraud • Council Tax – Single Person Discounts and Council Tax Reduction Scheme • Business Rates • Payroll & Pensions • Recruitment • Electoral fraud, School admission application fraud • Direct Payments / personal budgets • Adult Social Care – Financial Assessments • Grants to individuals or organisations • Development control • Cash handling, Expenses, Blue badges and concessionary travel |
| <p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Halton Borough Council as a whole, or within specific departments since 1 April 2023? If so, please provide details.</p> | <p>No. The Council's Investigations Team is constantly investigating low level fraud. The Council is unaware of any allegations of fraud, errors or other irregularities that would be considered material in terms of the financial statements.</p> |

Fraud risk assessment

| Question | Management response |
|---|--|
| <p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p> | <p>The Audit & Governance Board receives regular reports on the Council's corporate risk management arrangements and reviews the Corporate Risk Register. The risk of fraud is specifically acknowledged in the Council's Corporate Risk Register, which also details the measures that the Council has in place to deter fraud. The Audit & Governance Board regularly reviews the robustness of the Council's risk management arrangements.</p> <p>Risk issues identified through the work of Internal Audit are reported to the Audit & Governance Board through regular progress reports.</p> <p>The Audit & Governance Board also receives an annual report on the Council's anti-fraud and corruption arrangements. Please see the agenda and minutes from the September 2023 meeting of the Board for the latest report.</p> <p>Any emerging significant risk issues would be communicated to elected members as appropriate.</p> <p>There is a section in the Council's standard Board reporting template that requires consideration of the risks associated with any decision.</p> |
| <p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Halton Borough Council where fraud is more likely to occur?</p> | <p>Housing Benefit and Council Tax Reduction Scheme claims are considered to be most susceptible to fraud. This is a national issue and not unique to Halton.</p> <p>There are also other areas where local authorities may be at risk of fraud. For Halton these include:</p> <ul style="list-style-type: none"> • Council Tax (Single Person Discounts, Student Exemptions, Non-occupancy), Business Rates (Reliefs and Exemptions), Online Banking Transactions, Procurement, Supplier Payment Fraud, Payroll, Grants, Insurance Claims, Travel and Subsistence Claims, Cash Collection and Banking, Schools, Direct Payments / Personal Budgets |

Fraud risk assessment

| Question | Management response |
|---|---|
| <p>6. What processes do Halton Borough Council have in place to identify and respond to risks of fraud?</p> | <p>There is a well-established risk management process and the risk of fraud to the organisation is considered as part of the Council's planning processes. Management Team reviews and monitors the Corporate Risk Register on a regular basis. The Audit & Governance Board also receives regular reports on the Council's corporate risk management arrangements and reviews the Corporate Risk Register. The risk of fraud is specifically acknowledged in the Council's Corporate Risk Register, which also details the measures that the Council has in place to deter fraud. The Audit & Governance Board regularly reviews the robustness of the Council's risk management arrangements.</p> <p>The Council has an established Anti-Fraud & Corruption Strategy, Fraud Response Plan and a Confidential Reporting Code (Whistleblowing Policy). These documents form part of the Council Constitution.</p> <p>Internal Audit considers the risk of fraud in each audit assignment. Internal Audit also undertakes periodic initiatives to raise fraud awareness amongst employees and members.</p> <p>Internal Audit includes an Investigations Team comprising three investigator posts. These posts provide a dedicated, council-wide fraud investigation resource to undertake fraud investigations.</p> <p>The Council also operates a fraud reporting system that allows members of the public to report any concerns that they have in regard to potential fraud.</p> <p>Other arrangements to identify and respond to the risk of fraud include:</p> <ul style="list-style-type: none"> • Crime insurance policy to indemnify the Council against significant financial loss resulting from fraud • Participation in the National Fraud Initiative • Collaboration with other local authorities and sharing of best practice in regard to tackling fraud and corruption • Formal arrangements with the DWP to participate in joint criminal fraud investigations relating to the Council Tax Reduction Scheme (CTRS) and social security benefit fraud • Membership of the National Anti-Fraud Network (NAFN), which is the largest shared service in the country and provides data, intelligence and best practice in support of fraud and investigation work <p>As far as is known, these arrangements have been effective in mitigating the risk of fraud and corruption. Levels of identified fraud remain low.</p> |

Fraud risk assessment

| Question | Management response |
|---|--|
| <p>7. How do you assess the overall control environment for Halton Borough Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p> | <p>The Council believes that it operates a robust control environment, which is borne out by the annual opinions provided by the Head of Internal Audit over an extended period.</p> <p>Internal Audit provides a continuous audit of the Council's control environment and undertakes regular reviews of the core systems which provide the information used for the financial statements. This includes assessing the adequacy and operation of internal controls plus the risk of fraud, as part of each audit review.</p> <p>Action plans are put in place to address any significant internal control weaknesses identified through the work of Internal Audit, External Audit or any other assurance providers. The results of each Internal Audit review and follow-up reviews are reported to the Audit & Governance Board.</p> <p>A fraud awareness e-learning module operates in-house to raise staff awareness of potential fraud risks.</p> <p>Staff responsible for preparing the financial statements are appropriately qualified and experienced and there is a rigorous quality assurance process to ensure the financial statements are free from material error.</p> <p>The Audit & Governance Board also reviews and approves the Council's Annual Governance Statement, which considers assurances from various sources with regard to the Council's internal control framework.</p> <p>We are not aware of any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process.</p> |

Fraud risk assessment

| Question | Management response |
|--|---|
| <p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p> | <p>We are not aware of any areas where there is potential for misreporting. The processes established for reporting include reconciliations to ensure all costs are included and reconcile to overall control totals. Verification, checking and challenging of figures prior to being reported helps to mitigate the risk of deliberate misreporting.</p> |
| <p>9. How does Halton Borough Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p> | <p>The Council's Local Code of Corporate Governance, which forms part of the Council Constitution, sets out the processes in place to ensure that officers behave in ways that exemplify high standards of conduct and effective governance. These arrangements are wide ranging and communicated by Management Team to staff in a variety of ways including; induction procedures, the employee code of conduct, Finance Standing Orders, Procurement Standing Orders, registers of interests, In-Touch staff bulletins, staff letters, registers of gifts and hospitality, whistle-blowing procedures, HR policies and fraud awareness training.</p> <p>E-learning has been used to improve employee awareness of the Bribery Act, Fraud and Corruption, and Information Governance.</p> <p>Staff are expected to report any concerns regarding potential fraud, corruption and unethical or unprofessional behaviour. The Council operates a whistleblowing policy for staff and contractors to report any concerns. The channels by which concerns may be raised are well publicised. All reports received are investigated. The list of reports received during 23/24 can be shared if required.</p> |

Fraud risk assessment

| Question | Management response |
|---|--|
| <p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p> | <p>Any posts having high value levels of delegation are considered potentially higher risk from a fraud and corruption perspective, as well as those dealing with the procurement of contracts. However, the Council operates a scheme of delegation which ensures that an appropriate structure of financial authorisation is in place to mitigate potential risks. Appropriate segregation of duty is inbuilt into the Council's finance and banking systems to ensure that the same officer cannot initiate a transaction and authorise it.</p> <p>The Council operates robust procurement arrangements, which are overseen by the Procurement Team. This provides assurance that the Council's procurement activity is legally compliant and compliant with the requirements of the Council's own Procurement Standing Orders.</p> |
| <p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p> | <p>A list of related parties will be included within the Council's draft 2023/24 Statement of Accounts. We are not aware that any of these relationships or transactions could give rise to instances of fraud.</p> |

Fraud risk assessment

| Question | Management response |
|---|---|
| <p>12. What arrangements are in place to report fraud issues and risks to the Audit and Governance Board?</p> <p>How does the Audit and Governance Board exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p> | <p>The Audit & Governance Board receives regular reports on the Council's corporate risk management arrangements and reviews the Corporate Risk Register. The risk of fraud is specifically acknowledged in the Council's Corporate Risk Register, which also details the measures that the Council has in place to deter fraud. The Audit & Governance Board regularly reviews the robustness of the Council's risk management arrangements.</p> <p>Risk issues identified through the work of Internal Audit are reported to the Audit & Governance Board through progress reports to each meeting of the Board</p> <p>The Audit & Governance Board also receives an annual report on the Council's anti-fraud and corruption arrangements. The Board received the 2022/23 report in September 2023, the 2023/24 version will be reported in September 2024.</p> <p>No significant fraud issues / risks were reported to the Audit and Governance Board in 2023/24.</p> |
| <p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p> | <p>Yes - All whistleblowing complaints are logged and investigated by the Audit & Investigations Team. A summary of the complaints received, and outcomes, is reported to the Audit and Governance Board in the annual report on the Council's anti-fraud and corruption arrangements</p> |
| <p>14. Have any reports been made under the Bribery Act? If so, please provide details</p> | <p>No.</p> |

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Governance Board, is responsible for ensuring that Halton Borough Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Governance Board as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

| Question | Management response |
|---|--|
| <p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Halton Borough Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Local Authority's regulatory environment that may have a significant impact on the Local Authority's financial statements?</p> | <p>Senior Officers, the Legal Department and Finance Officers are responsible for ensuring compliance with relevant laws and regulations. Internal Audit reviews such arrangements as part of its annual plan of work and report on any non-compliance.</p> <p>The Council also operates whistleblowing arrangements which provide for the safe reporting of any non-compliance with laws and regulations.</p> <p>There have not been any changes to the Council's regulatory environment which would have a significant impact upon the financial statements.</p> |
| <p>2. How is the Audit and Governance Board provided with assurance that all relevant laws and regulations have been complied with?</p> | <p>The Audit & Governance Board considers the Annual Governance Statement which provides various assessments of compliance.</p> <p>Assurances are also provided by the arrangements operated by the Council's statutory Section 151 Officer and Monitoring Officer and from the Council's Annual Governance Statement.</p> |
| <p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2023 with an on-going impact on the 2023/24 financial statements? If so, please provide details</p> | <p>There have been no such instances of non-compliance or suspected non-compliance since 1 April 2023.</p> |

Impact of laws and regulations

| Question | Management response |
|--|---|
| 4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details | Only for those where it is possible the liability is with the Council and there is uncertainty over the amounts. These are covered within the contingent liabilities note. |
| 5. What arrangements does Halton Borough Council have in place to identify, evaluate and account for litigation or claims? | <p>Senior Officers, the Legal Department and Finance Officers are requested on an annual basis to consider potential litigation and claims. Regular financial reporting and budget monitoring also help with the identification process.</p> <p>Assessments are undertaken by the Revenues & Financial Management Division and decisions taken on how to account for claims in line with accounting standards and the CIPFA Code of Practice. A provision is set for all insurance claims, in order to quantify the full potential cost of all outstanding claims.</p> <p>Regular meetings take place with service providers that will highlight these events.</p> |
| 6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details | <p>For the first time in over a decade the Council had its VAT arrangements inspected by HM Revenues and Customs. As a result of the review there were a small number of issues identified for which the Council has corrected and put in place procedures to ensure they do not re-occur. The Council received a suspended fine from HM Revenues and Customs for the errors identified. This suspension period has now passed with no further errors identified and as such the inspection has finalised and been closed.</p> <p>The Council continues to engage with VAT specialists (PWC) for support on VAT matters and has now a dedicated VAT Officer in place.</p> |

Related Parties

Matters in relation to Related Parties

Halton Borough Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Halton Borough Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Local Authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Local Authority, or of any body that is a related party of the Local Authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Local Authority's perspective but material from a related party viewpoint then the Local Authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

| Question | Management response |
|---|---|
| <p>1. Have there been any changes in the related parties including those disclosed in Halton Borough Council's 2023/24 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Halton Borough Council • whether Halton Borough Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions | <p>A list of related parties are included within the Council's draft 2023/24 Statement of Accounts. There have been no material changes from those disclosed in the 2022/23 financial statements.</p> |
| <p>2. What controls does Halton Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p> | <p>An exercise is undertaken annually as part of preparing the Statement of Accounts, to identify potential related party transactions and ensure they are properly accounted for.</p> |
| <p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p> | <p>All transactions with related parties are subject to the Council's normal controls over authorisation and approval of transactions in line with Finance Standing Orders.</p> |
| <p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p> | <p>There are no transactions outside the normal course of business and all transactions are subject to the normal authorisation and approval controls.</p> |

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, 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 body'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.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

| Question | Management response |
|---|--|
| <p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Halton Borough Council will no longer continue?</p> | <p>Council Executive Board receive quarterly reports covering the Council's financial position (including update on the level of available reserves), this will highlight any risk to the Council's finances which may have a detrimental impact on continued delivery of Council services.</p> <p>Financial Management undertake forecasting of estimated outturn position during the financial year and a rolling medium term financial forecast is also produced which reviews the Council's financial position over a three year term. This will enable the Council to identify risks to statutory services continuing to be provided.</p> |
| <p>2. Are management aware of any factors which may mean for Halton Borough Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p> | <p>None.</p> |
| <p>3. With regard to the statutory services currently provided by Halton Borough Council, does Halton Borough Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Halton Borough Council to cease to exist?</p> | <p>The Council expects to deliver statutory services for the foreseeable future.</p> |
| <p>4. Are management satisfied that the financial reporting framework permits Halton Borough Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p> | <p>Management are satisfied on both counts</p> |

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

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

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

Specifically do Audit and Governance Board members:

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

We would ask the Audit and Governance Board to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|--|--|
| 1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures? | Property, Plant & Equipment Pensions Liability Provisions |
| 2. How does the Local Authority's risk management process identify and address risks relating to accounting estimates? | Consideration is given to such whilst preparing the financial statements. These have been noted in the 2023/24 Statement of Accounts and include: <ul style="list-style-type: none"> • Property, Plant & Equipment • Pensions Liability • Collection Fund Provisions |
| 3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates? | Professional advice is taken with regards to these estimates. The Councils internal valuer (via Sandersons Weatherall) provides advice on PPE. Advice on the value of the pensions liability is taken from the scheme actuary. Advice, economic climate and use of best available data is used with regard to provisions |
| 4. How do management review the outcomes of previous accounting estimates? | Comparison of values is undertaken between current and prior year. Where material differences apply guidance is sought on the reasons. |

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|---|--|
| 5. Were any changes made to the estimation processes in 2023/24 and, if so, what was the reason for these? | No Changes. |
| 6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates? | Need for specialist skills or knowledge will be considered separately for each class of estimation. |
| 7. How does the Local Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts? | Control activities are set out in engagement contracts with service providers or management experts. Control activities will be determined in line with CIPFA Code of Practice and International Accounting Standards. |
| 8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts? | Ensure these are addressed as part of covering reports in receiving estimates from providers or management experts. Clarification sought where there are material differences in estimates between years which has not been addressed. |

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|--|--|
| <p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. | <p>Detailed information on each estimate is included within the Statement of Accounts.</p> |
| <p>10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?</p> | <p>None</p> |
| <p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p> | <p>Use of service providers or management experts where required.</p> |
| <p>12. How is the Audit and Governance Board provided with assurance that the arrangements for accounting estimates are adequate ?</p> | <p>Use of service providers or management experts where required.</p> |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|---|---|--|--|--|---|
| Land and buildings valuations | Management experts engaged to provide information. | Market and economic conditions | Yes | Considered under accounting policies and major source of estimation uncertainty. | No |
| Depreciation | Estimated useful lives are applied for each different class of asset | Depreciation applied to valuation provided by management experts | Yes | Considered under accounting policies and major source of estimation uncertainty. | No |
| Assets held for sale | Management experts engaged to provide information. | Market and economic conditions | Yes | Considered under accounting policies and major source of estimation uncertainty. | No |
| Valuation of defined benefit net pension fund liabilities | Management experts engaged through Cheshire Pension Service to provide information. | Market and economic conditions | Yes | Considered under accounting policies and major source of estimation uncertainty. | No |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|--|--|--|--|--|---|
| Provisions | Historical experience and current available information. | Comparison made to previous years | No | To be considered if material | No |
| Fair value estimates | The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either: a) in the principal market for the asset or liability, or b) in the absence of a principal market, in the most advantageous market for the asset or liability. | Market and economic conditions | Yes | To be considered if material | No |
| Accruals | Latest available information. | Comparison to previous years, in-year costs. | No | To be considered if material | No |
| ³¹ Credit loss and impairment allowances/ | Historical experience and current available information. | Comparison made to previous years. Market and economic | No | To be considered if material | No |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|--|---|-------------------------------------|--|--|---|
| Amounts due under finance leases | Latest available information | Comparison to previous years. | No | To be considered if material | No |
| PFI Liabilities | Model based on latest available information and information relevant to PFI type schemes. | Comparison to previous years. | Experts used in previous years in setting up initial models. | To be considered if material | No |
| [Please add any other estimate you feel we should be aware of] | | | | | |



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