

Audit Findings

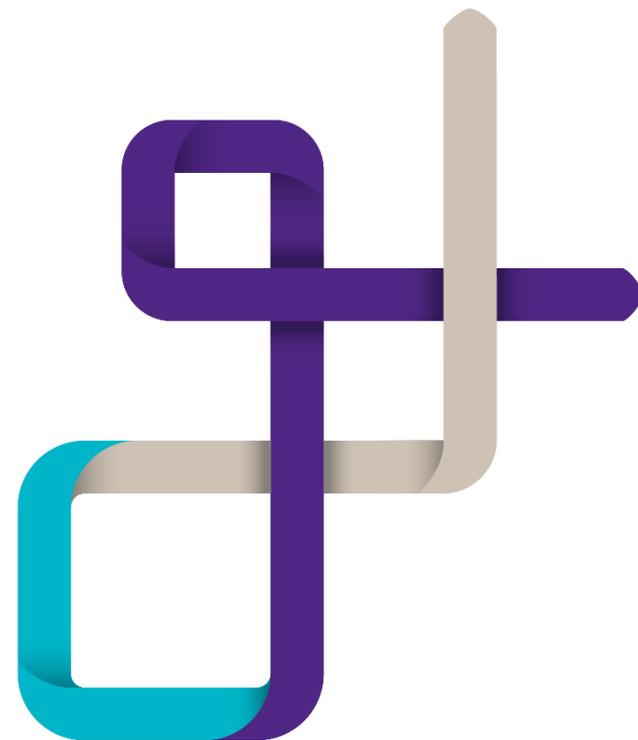
Year ending 31 March 2018

Wirral Council

July 2018 (as at 12 July 2018)

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines

This table summarises the key issues arising from the statutory audit of Wirral Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

<p>Financial Statements</p>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income 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. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work is substantially complete and was undertaken on site in June and July 2018. Our findings are summarised on the following pages. We have not identified any adjustments affecting the Council's reported financial position for the year ended 31 March 2018 with the draft financial statements setting out recorded net expenditure on cost of services of £251.950m.</p> <p>The key messages arising from our audit of the Council's financial statements</p> <ul style="list-style-type: none"> The draft financial statements were prepared to a good standard ahead of the revised and earlier deadline of 31 May 2018. The statements were supported by prompt provision of appropriate working papers in accordance with the agreed timetable. The draft financial statements published on the Council website did not include an Annual Governance Statement as is required under the Regulations. A draft was made available on 8 June however it is important the Council accelerates the process for preparing the draft going forward. <p>At this stage of our audit we have not identified any material errors or uncertainties and subject to completion of our testing we anticipate issuing an unqualified audit opinion following the Council's Audit and Risk Management Committee meeting on 23 July 2018. These outstanding items include:</p> <ul style="list-style-type: none"> completion of testing on a small number of account balances and clearance of outstanding queries review of LOBO accounting issues obtaining and reviewing the management representation letter review of the final set of financial statements, and updating our post balance sheet events review, to the date of signing the opinion. <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, is consistent our knowledge of the Council and with the financial statements we have audited.</p> <p>Merseyside Pension Fund</p> <p>We also anticipate providing an unqualified opinion on Merseyside Pension Fund's financial statements. The findings from this audit are set out in a separate report.</p>
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Headlines

This table summarises the key issues arising from the statutory audit of Wirral Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion') 	<p>We have completed our risk based review of the Council's value for money arrangements. The Council continues to face a challenging financial position. Whilst progress has been made in establishing a new Growth Company a significant proportion of the £62m budget gap in 2018/19 is to be met through one-off use of reserves and expected asset sales. This approach cannot continue and more needs to be done to put the Council on a firm financial footing going forward.</p> <p>Steps are continuing to address the issues highlighted by OFSTED in the their inspection of Children's services and improvements have been achieved. However, at this stage the Council remains assessed as 'inadequate' and we intend to reflect this in our Value for money conclusion judgement as in previous years.</p> <p>We therefore anticipate issuing a qualified 'except for' value for money conclusion, as detailed in Appendix E.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and certify the closure of the audit 	<p>We do not expect to be able to certify the conclusion of the audit as we are yet to complete our consideration of an objection we received in relation to the Council's Lender Option Borrower Option borrowing.</p>

Acknowledgements

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

Summary

Overview of the scope of our audit

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 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements 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 completion of outstanding testing and clearance of the final queries, we anticipate issuing an unqualified audit opinion following the Audit and Risk Management Committee meeting on 23 July 2018. These outstanding items include:

- completion of testing on a small number of account balances and clearance of outstanding queries
- review of LOBO accounting issues
- obtaining and reviewing the management representation letter
- review of the final set of financial statements; and
- updating our post balance sheet events review, to the date of signing the opinion.

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 calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for Wirral Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£13.026m	Considered to be the level above which users of the accounts would wish to be aware of misstatements, in the context of overall expenditure. Based on 1.8% of 2016/17 actual Gross Revenue Expenditure.
Performance materiality	£9.769m	Assessed as 75% of Financial Statement materiality
Trivial matters	£0.686m	ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.
Materiality for specific transactions, balances or disclosures	£20k 1.8%	Senior Officer remuneration disclosures given the potential public interest in these figures. Related Party Transactions due to potential public interest. We will review any unusual transactions.

Significant audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited because there is a high degree of predictability in the main revenue streams
- The culture and ethical frameworks of local authorities, including Wirral Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Wirral Council.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We identified management override of controls as a risk requiring special audit consideration.

We have:

- gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness
- obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness
- evaluated the rationale for any changes in accounting policies or significant unusual transactions.

Our audit work completed to date has not identified any evidence of management over-ride of controls.

Significant audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of property, plant and equipment

The Council revalues its land and buildings on a quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

We have:

- reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- considered the competence, expertise and objectivity of any management experts used
- discussed with the valuer the basis on which the valuation is carried out and challenge of the key assumptions
- reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding
- tested revaluations made during the year to ensure they are 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.

Assurance gained and Issues arising

The Council's property, plant and equipment assets are valued by the Council's in-house valuation team. Our work has assessed them as having appropriate knowledge of the Council's portfolio and they have used information from the Asset Register and other Council estates systems in carrying out their valuation of Council assets. The assumptions used are reasonable and we are satisfied that the valuer had full access to appropriate levels of information to complete reliable valuations.

For the assets not re-valued in year, officers undertake an annual assessment of the carrying value of these assets to be able to satisfy themselves that the carrying value is not materially different to the fair value at the 31 March 2018. This involves a review of the potential impact of indices on the asset valuation, together with consideration of a range of other factors.

The assessment of Council officers is that the carrying value of assets in the Council's financial statements is not materially different to the fair value at the 31 March 2018, in the context of an overall carrying value of £433 million for Other Land and Buildings in the final financial statements. We have reviewed and challenged the Council's methodology and assumptions used during this review and found them to be reasonable.

We identified a number of assets where capital expenditure, which had been incurred in previous years, was written off during the year, in the absence of a formal revaluation to verify that the expenditure had not contributed to an increase in value to the asset. As such, this practice is contradictory where the original assessment was that the expenditure was capital, and not revenue, in nature. We have performed further investigation of the assets impacted by this assessment and concluded that the total value of £3.8m is below our materiality threshold and does not impact upon our assessment that asset valuations are not materially misstated.

Our audit work has not identified any further significant issues in relation to the risk identified.

Significant audit risks

Risks identified in our Audit Plan

Commentary

4

Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

We have:

- identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement
- evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made
- Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Assurance gained and Issues arising

For the valuation of Wirral's pension fund net liability we undertook a review of the actuary's (Mercer) work to satisfy ourselves that the pension liabilities are fairly stated in the financial statements. In doing so we assess the methodology and assumptions used by the scheme's actuary.

We confirmed with the LGPS auditor that the controls over membership data were operating as intended.

Our audit work has not identified any significant issues in relation to the risk identified.

Reasonably possible audit risks

Risks identified in our Audit Plan

Commentary

5

Employee remuneration

Payroll expenditure represents a significant percentage of the Council's operating expenses.

As the payroll expenditure comes from a number of individual transactions and interfaces with different sub-systems, there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.

We have:

- evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness
- gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls
- re-performed all year-end reconciliations and investigated significant adjustments
- agreed year end accruals to supporting documentation
- performed substantive analytical procedures disaggregated for each month.

Assurance gained and Issues arising

We completed our analytical work and review of payroll reconciliations to gain assurance that payroll expenditure was not materially misstated.

Our audit work has not identified any significant issues in relation to the risk identified

6

Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non- pay expenses as a risk requiring particular audit attention:

We have:

- evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;
- gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls;
- tested April non-pay expenditure to ensure it is charged to the correct year
- re-performed all year-end reconciliations and investigated significant adjustments.

Assurance gained and Issues arising

Our testing confirmed that controls around operating expenses are working as expected and our testing completed to date of year end creditors and accruals found that they had been properly accounted for been posted to the correct period.

Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>Income and expenditure is recognised in the financial year in which goods and services are received or provided. The amounts included are based on actual invoices received or raised after the year end and where actual amounts are not known estimates are included based on an assessment of the value of goods and services received or rendered. Any estimates are calculated using the best available information.</p> <p>Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. If debts are not likely to be settled, the balance of the debtor is written down and a charge made to revenue for income that might not be collected.</p> <p>Income from Council Tax and National Non-Domestic Rates is recognised within the Comprehensive Income and Expenditure Account as the amount due to the Council for the financial year, including its share of the Collection Fund balances for these items at the end of the financial year. This value is subsequently amended through the Movement in Reserves Statement and the Collection Fund Adjustment Account to reflect the amount to be credited to the General Fund for the Council's Council Tax Requirement and income from National Non-Domestic Rates.</p> <p>Interest receivable on investments and payable on borrowings is accounted for as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows set out by contract.</p>	<ul style="list-style-type: none"> The Council's policy is appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code). The main elements of the Council's revenues are predictable and there is minimal judgement required from the Council. The accounting policies are appropriately disclosed in note 1 to the financial statements. 	 Green
Group accounts	<p>The Council's accounts include a Group Accounts accounting policy and judgement that the Council's interests and investments in companies are not material and therefore Group Accounts are not required.</p>	<p>We have completed our review of the detailed Group accounts assessment completed by the Council and agree that your assessment is reasonable and supported by the evidence.</p>	 Green

Assessment

● - **Red** - Marginal accounting policy which could potentially be open to challenge by regulators

● - **Amber** - Accounting policy appropriate but scope for improved disclosure

● - **Green** - Accounting policy appropriate and disclosures sufficient

Accounting policies

Accounting area	Summary of policy/Issue	Comments	Assessment
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> – Useful life of Property, Plant and Equipment – Revaluations and Impairments of assets – Valuation of pension fund net liability – Provision for NNDR appeals – Other provisions and contingent liabilities. 	<ul style="list-style-type: none"> • The Council's accounting policies for key estimates and judgements are appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code). • The accounting policies are appropriately disclosed in notes 1,3 and 4 to the financial statements • Our audit testing of key estimates and judgements has considered the extent of judgement involved, the potential impact of different assumptions and the range of possible outcomes. Other than the issue set out below, we are satisfied that the key estimates and judgements are appropriate and adequately disclosed. • The Council has transferred services to other entities where TUPE provisions apply and in doing so has entered into contractual arrangements to guarantee/indemnify the pension obligations or contributions of the entity. Our view is that where these guarantees are contractual the accounting for these guarantees should be determined with reference to the nature of the agreement between the parties involved and consideration as to whether these are derivative financial liabilities under IAS 39 Financial Instruments: Recognition and Measurement or insurance contracts under IFRS 4 Insurance Contracts, dependent on the risks involved, therefore bringing the liability onto the balance sheet. Management judgement is therefore required as to whether non-financial risks (results in IFRS 4 treatment) or financial risks (results in IAS 39 treatment) are greater. • Management have updated their consideration of these guarantees and concluded that they are derivative financial liabilities and have estimated the unrecorded liability in the draft financial statements to be less than £10,000 in 2017/18. Based on this value Management have decided not to reflect these transactions within the financial statements as the amounts involved are clearly not material. 	 <p>Green</p>

Accounting policies

Accounting area	Summary of policy/Issue	Comments	Assessment
Going Concern	<p>The Director of Finance & Investment (s151) officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2017/18 financial statements.</p>	 Green
Other critical policies	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</p>	 Green

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
① Matters in relation to fraud	We have previously discussed the risk of fraud with management, Internal Audit and the Audit and Risk Management Committee. We have not been made aware of any significant issues in the period and no other issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	From the work we carried out, we have not identified any related party transactions which have not been disclosed. We noted that six Councillors did not return a declaration of interest form in line with Council requirements. We therefore undertook additional audit procedures to help provide the necessary assurances.
③ 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.
④ Written representations	A standard letter of representation has been requested from the Council.
⑤ Confirmation requests from third parties	We obtained direct confirmations from banks for confirmation of year end balances alongside other third party confirmations relating to borrowings and investments. A confirmation requested for Holy Spirit Primary School has not yet been received. However, we obtained sufficient assurance by completing alternative audit procedures. All other requests were returned with positive confirmation.
⑥ Disclosures	Our review found no material omissions in the financial statements. A small number of disclosure amendments have been made to the financial statements arising from the audit.
⑦ Significant difficulties	We have not experienced any significant difficulties in the conduct of the audit of the 2017/18 draft financial statements

Other responsibilities under the Code

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

Issue	Commentary
① Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to Appendix E</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>Following the late provision of a completed Annual Governance Statement for 2017/18 based on our review we have nothing to report on these matters. It is however important that the Council accelerates its process for preparing the Annual Governance Statement going forward to ensure a draft is available to be published by the end of May.</p>
③ Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of £500 million we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>Our work is not yet completed and we plan to complete this work ahead of the 31 August 2018 deadline.</p>
④ Certification of the closure of the audit	<p>We do not expect to be able to certify the completion of the 2017/18 audit of Wirral Council in our auditor's report, as detailed in Appendix E as we are currently in the process of completing our work in relation to an objection that we received in relation to the Council's Lender Option Borrower Option borrowing</p>

Value for Money

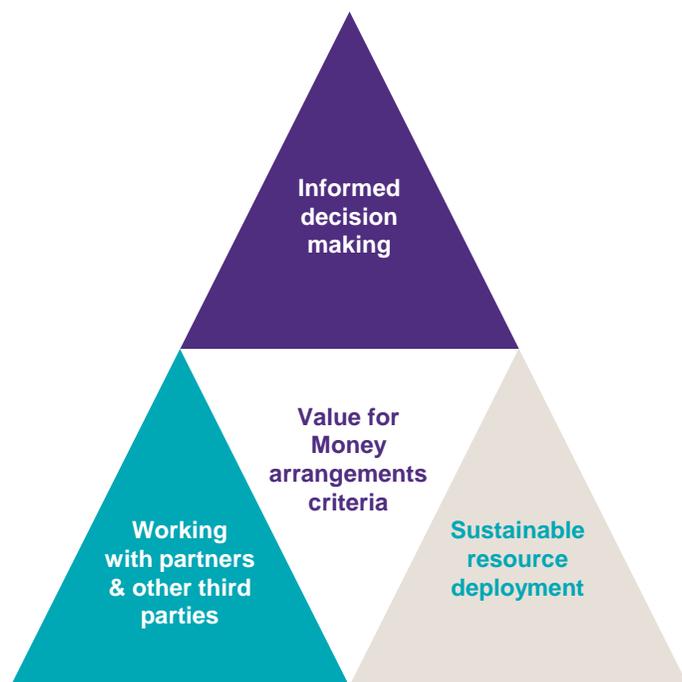
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in earlier in the year and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2018 as set out below.

Financial Planning/sustainability

The Council continues to face an increasingly difficult financial position. The Medium Term Financial Strategy 2017/18 – 2020/21 set out a £132m budget gap and plans are in place to achieve savings of £45m in 2017/18 and £61m in 2018/19. The Council recognise that the balanced position in 2017/18 and 2018/19 has been achieved, in part, through the use of “one –off” options including the use of balances and reserves and the generation of capital receipts through the proposed sale of Council assets.

Plans are in place to secure both service transformation and increased income generation as part of the Council strategy to secure its longer term financial stability. With a key component of this strategy being the establishment of the Wirral Growth Company. The delivery of the required savings in 2017/18 and the plans for further service transformation represent a significant challenge to the Council.

Ofsted inspection of children's services

Ofsted issued a report on the Council's children's services in September 2016 which rated the service as 'inadequate'. Subsequently, the Council have undertaken a range of actions and significantly increased funding to the service and worked toward securing the required service improvement. Ofsted have completed regular follow up reviews and the December 2017 review concluded that “some progress” has been achieved and the “direction of travel is now more promising” however “there is still a great deal of work to be done”.

Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness. We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

Financial Planning Sustainability

- The Council continues to face an increasingly difficult financial position. The Medium Term Financial Strategy 2017/18 – 2020/21 set out a £132m budget gap and with plans in place to achieve savings of £45m in 2017/18 and £61m in 2018/19. The Council reported that 2017/18 proved to be another financially challenging period with significant overspends recorded for certain care related services and the 2017/18 budget required allocation of £8.5million from the revenue budget contingency reserves.
- During the year the Council updated the Medium Term Financial Strategy and developed the 2018/19 budget proposals following agreement to make an additional £25m investment in Children's services. The Revenue budget 2018/19 reported to Cabinet in February 2018 confirmed an updated position that set out the basis of the £61m saving requirement. We note that the basis of the savings proposals were £22m savings proposals identified as at February 2017, further proposals for savings identified between Dec 2017 and February 2018 of £13m, required generation of Capital receipts of £10m and planned use of balances and reserves of £16m.
- We acknowledge that the Council recognise that the planned balanced position in 2017/18 and 2018/19 has been achieved, in part, through the use of "one –off" options including the use of balances and reserves and the proposed sale of Council assets. However, we note that of the £61m budget gap "identified" above some £26m is predicated on the realisation of £10m in capital receipts and £16m is based on the use of balances and reserves and this represents 42.5% of the budget savings requirement.
- During the year the Council approved the establishment of a new Joint Venture - Wirral Growth Company – with the aim of leading regeneration plans across the borough. It is anticipated the creation of the Company will result in the creation of jobs, attract investment and boost housing and development. Consequently, this should help alleviate some of the financial pressures in the longer term.
- However the Council faces a £76m funding gap between 2019/20-2021/22 and the majority of reserves established to support the budget have now been utilised. Therefore the Council has plans to update and revise the basis of the MTFS 2019/20 - 2022/23 with the aim of establishing a sustainable and robust financial basis on which the Council can operate over the longer term. This is an absolute priority for the Council.
- The Council recognise the financial challenges and pressures it faces over both the immediate and longer term. It is now critical that action is taken to deliver a sustainable and robust financial plan on which the Council can operate over the longer term. It is important that officers and members work together effectively to make this happen.

OFSTED inspection of Children's Services

- Ofsted have completed four monitoring visits to the Council during 2017/18 following on from the September 2016 inspection that concluded that children's services were inadequate with the latest visit taking place in May 2018. We note that the report following on from the May 2018 inspection concluded that *"the local authority is making progress in improving services for its children and young people who need to be looked after"*. The report goes on to say that *"more work is needed to improve social work proactive to ensure that all children looked after receive a good service that improves their experiences"*.
- Members are provided with regular updates on the Council's Improvement Plan and the key actions that have been implemented over the period. The Improvement Plan sets out five key performance areas with a clear focus on "getting the basics right". During 2017/18 numerous improvement actions have been implemented including improved levels of recruitment with appointments to more senior roles that have helped contribute to reductions in caseload and restructuring of working practices.
- The Council recognise that there is more to be achieved to deliver the further service improvements required. Until such time that Ofsted confirm that adequate arrangements are in place this remains a significant risk to the Councils arrangements.

Value for Money

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- except for the matter we identified in respect of the improvement actions required for Children's Services, the Council had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The text of our proposed report can be found at Appendix E.

Recommendations for improvement

We discussed our VFM findings arising from our work with management and have agreed a recommendation for improvement relating to the Financial Planning risk. Our recommendation and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work - VFM

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management - VFM

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Other statutory powers and duties

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

Issue	Commentary
<p>1 Objection</p>	<p>On 11 August 2016 we received an objection to the accounts under sections 26 and 27 of the Local Audit and Accountability Act 2014. The objector requested that we prepare a public interest report and apply to the courts for a declaration that Wirral Council's Lender Option, Borrower Option loan borrowing as referenced in the 2015-2016 accounts is unlawful.</p> <p>In keeping with objections received by several authorities the objector raises concerns in respect of the:</p> <ul style="list-style-type: none"> - rationality of the decision to borrow on LOBO terms; - adequacy of the information on which the Council based their decisions to enter into LOBO arrangements; - scale of borrowing on LOBO terms and associated exposure to interest rate increases; - alleged improper speculation on future interest rate changes; and - use of advisers with alleged undisclosed financial incentives to promote LOBOs. <p>Our work in relation to the objection is on-going and we have received prompt and full co-operation from the Council in both provision of relevant information and responses to our queries. Whilst it is impossible to put a definite timeframe on it, we plan to conclude our consideration of the objection as soon as possible</p>

Independence and ethics

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

Details of fees charged are detailed in Appendix D.

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 and confirm that the following non-audit services were identified.

Service	£	Threats	Safeguards
Non-audit related			
CFO Insight	12,500	Self Interest	The fee is a subscription, planned to be recurring, and is therefore a possible self-interest threat. However, the fee for this work is small in comparison to the total fee for the audit and in particular GT UK turnover overall. It is also a fixed fee with no contingent element. These factors all mitigate the perceived self-interest threat to an acceptable level.

Action plan

We have identified two recommendations 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 2018/19 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
<p>1</p> <p> Red</p>	<p>The Council continues to face a challenging financial position. Whilst progress has been made in establishing a new Growth Company a significant proportion of the £61m budget gap in 2018/19 is being met through one-off use of reserves and expected asset sales. This approach cannot continue and more needs to be done to put the Council on a firm financial footing going forward. . It is now critical that action is taken to deliver a sustainable and robust financial plan on which the Council can operate over the longer term. It is important that officers and members work together effectively to make this happen.</p>	<p>Develop and implement a sustainable plan to place the Council on firm financial footing going forward.</p> <p>Management response</p> <p>Work has commenced and will continue through 2018/19 on improving the Councils financial sustainability.</p> <p>The first part of this has been the consideration by Cabinet on 16 July of a refreshed Medium Term Financial Strategy for the period 2019 to 2023. This sets out the Council's approach to addressing the financial and sustainability challenges it will face in future years. It also contains details of a programme to improve financial resilience through improvements in areas such as financial management and culture.</p> <p>The second part of our planned improvements is the annual budget setting process. Activities commenced earlier than in previous years as part of a continuous process to set the budget for 2019/20. Further work will be undertaken in the remaining part of the financial year including Member agreement of financial proposals to remove "one – off" funding.</p>
<p>2</p> <p> Amber</p>	<p>The Council's draft financial statements published on its website at the end of May 2018 did not include a draft Annual Governance Statement as is required under the Regulations. It is important that the Council accelerates its process for preparing the Annual Governance Statement going forward to ensure a draft is available to be published by the end of May.</p>	<p>Accelerate the process for the preparing the Annual Governance Statement to ensure that the required deadlines are met.</p> <p>Management response</p> <p>The Council during 2018/19 will undertake forward planning and self-assessments to ensure that the AGS is published in May 2019.</p> <p>A draft of the Annual Governance Statement will be submitted to the Corporate Governance Group and Senior Leadership Team in April 2019 prior to its inclusion in the Councils Statement of Accounts later in the year.</p>

Controls

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

Follow up of prior year recommendations

We identified the following issues in the audit of Wirral Council's 2016/17 financial statements, which resulted in three recommendations being reported in our 2016/17 Audit Findings report to which Management provided a response. We have followed up to determine the updated position as set out below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	<p>Payroll – Teachers pension payments</p> <p>Our testing of a sample of employee pay details identified 8 retired teachers who receive a pension payments from Wirral Council. The Council were unable to provide any evidence to corroborate the values paid, the existence of staff, and verification that these retired teachers were still eligible to receive the payments.</p> <p>We completed specific testing on this issue that allowed us to conclude that the total value of payments made by the Council was not material at £2.9 million.</p>	<p>Recommendation - The Council will need to establish that payments to these former employees remain valid and establish controls to monitor the payments in future periods.</p> <p>Management response 2016/17</p> <p>An internal audit of the arrangements for the payment of Teachers Pension Payments has been carried out. The recommendations to resolve the issues are currently being developed with a view to improving the effectiveness of the control environment for the system of payments. It is anticipated that these will included liaison with outside bodies over the potential for data matching, validity testing and revised procedures.</p> <p>Management Update 2017/18</p> <p>Work is in progress to implement the internal audit recommendations, based upon a planned structured approach. The work already carried out has addressed the specific issue of matching and the plan provides for this to be further progressed to completion. Work is also under way to carry out appropriate validations and mortality checks that form part of the approach to this.</p>
2	<p>Segregation of duties conflicts</p> <p>Segregation of duties is a fundamental principle of control. It requires that record keeping, custody of assets; authorisation and reconciliation processes are not performed by the same person.</p> <p>We performed a review of the access rights, known as responsibilities, assigned to users within Oracle E-Business Suite and we identified a number of high-risk segregation of duties conflicts. A full report has been provided to IT and security for review.</p>	<p>Recommendation - A review of configuration of all responsibilities in use within Oracle EBS should be undertaken. This review should be driven by the business with IT support. We have provided the Oracle system administrator with the detailed outputs of our work to facilitate this. Responsibilities should be redesigned to reduce the number of segregation of duties conflicts within the system (Inherent conflicts).</p> <p>Where management have decided to accept the risk of the segregation of duties conflicts, this should be formally documented.</p> <p>Management response 2016/17</p> <p>We need this functionality to sometimes post transactions into previous periods. We will review the number of users who have access to this functionality to see if it can be reduced.</p> <p>Business need to review the configuration of the responsibilities and identify if there is a resolution to the issue or accept the risk.</p> <p>Management Update 2017/18</p> <p>During 2017/18 Digital Services carried out a review of the users who had access to responsibilities which indicated Segregation of Duties issues and in some instances action was taken to end date the accounts or removed the responsibility. There are a number of occurrences where the service except that there is a SOD and they have working practices to prevent or minimise the risk. Action has also been taken by Digital Services to contact services to ask if they could look at the responsibilities that were assigned to users and if possible define additional responsibilities which segregated some of the duties.</p>

Assessment

- ✓ Action completed/in progress
- X Not yet addressed

Follow up of prior year recommendations

Assessment Issue and risk previously communicated

Update on actions taken to address the issue

3



Default database accounts have not been locked

Oracle E-Business Suite uses Oracle RDMBS for its database technology. This ship with a number of out of the box accounts that have system administrator privileges. Our testing identified that there are one Oracle database accounts with their default passwords: APPLSYSPUB.

Such accounts could be used to enable users to access information that they are not permitted to.

This condition presents the following risk to the organisation:

Default accounts present a security risk as the usernames and passwords are widely available. They therefore present an easy point of compromise for a malicious user. These accounts could then be used to perform unauthorised and unaccountable changes or transactions, providing an easy method of committing fraudulent activity.

Recommendation - Default accounts and passwords should be locked or changed immediately to avoid the risk of system compromise.

Management should ensure that for any future upgrades or developments a thorough review of shipped accounts is undertaken and all default passwords changed.

Management response 2016/17

We will either update the passwords or end date these accounts.

Management Update 2017/18

During 2017/18 the relevant passwords have been either reset or an end date applied to all relevant accounts. The Grant Thornton review for this year has not raised any issues with APPLSYSPUB

Assessment

- ✓ Action completed
- X Not yet addressed

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. We are pleased to confirm that based on our work completed to date that we have not identified any issues that require audit adjustments to be made.

Misclassification and disclosure changes

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

Adjustment type	Value	Account Balance	Auditor recommendations	Adjusted?
Various	N/a		A number of disclosure adjustments/additions were agreed to ensure compliance with accounting practices and to improve the presentation of the financial statements. The more significant of which are listed below.	✓
Disclosure	Various	Note 40 – Private Finance Initiative	The draft financial statements did not include the PFI disclosure for Leasowe Primary School updated for 2017/18 rather the 2016/17 disclosure were included in error. The Note has now been updated to include the 2017/18 values.	✓
Disclosure		Note 23 - Provisions	Figures relating to provisions as set out on the Balance Sheet under current liabilities did not agree with the analysis set out at Note 23. The Note has now been corrected.	✓
Disclosure		Note 16 – Investment properties	The disclosure of Fair Value Hierarchy for Investment Properties included a transposition error in the Fair Value of “General Income sites” that has now been corrected.	✓

Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit	£159,863	£159,863
Grant Certification	£24,920	TBC*1
Total audit fees (excluding VAT)	£184,783	-

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. TBC*1 – The final fee for certification will be determined following completion of our work later in the year.

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

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
Teachers Pensions Agency	TBC*2
Non-audit services	
CFO insight	£12,500

TBC*2 – To be confirmed should the Council require us to undertake the review of the 2017/18 return.

Draft Audit opinion

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of Wirral Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Wirral Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, Cash Flow Statement, the Collection Fund Income and Expenditure Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance & Investment (s151) use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance & Investment (s151) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other Information

The Director of Finance & Investment (s151) is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages **[**xx to xx**]**, the Narrative Report and the Annual Governance Statement other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, [the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance & Investment (s151) and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 17, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance & Investment (s151). The Director of Finance & Investment (s151) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Director of Finance & Investment (s151) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance & Investment (s151) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit and Risk Management Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Qualified conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller & Auditor General in November 2017, except for the effects of the matter described in the basis for qualified conclusion section of our report, we are satisfied that, in all significant respects, [name of authority] put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for qualified conclusion

Our review of the Authority's arrangements identified the following matter:

- In September 2016, Ofsted published a report on the findings of its inspection of services for children in need of help and protection, children looked after and care leavers in Wirral. The report concluded that children's services in Wirral were inadequate. Specifically, the report concluded that arrangements for children who need help and protection and leadership, management and governance of children's services were inadequate.

This matter is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - *Delay in certification of completion of the audit*

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have:

- completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014.
- completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018.

We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

[Signature

Robin Baker

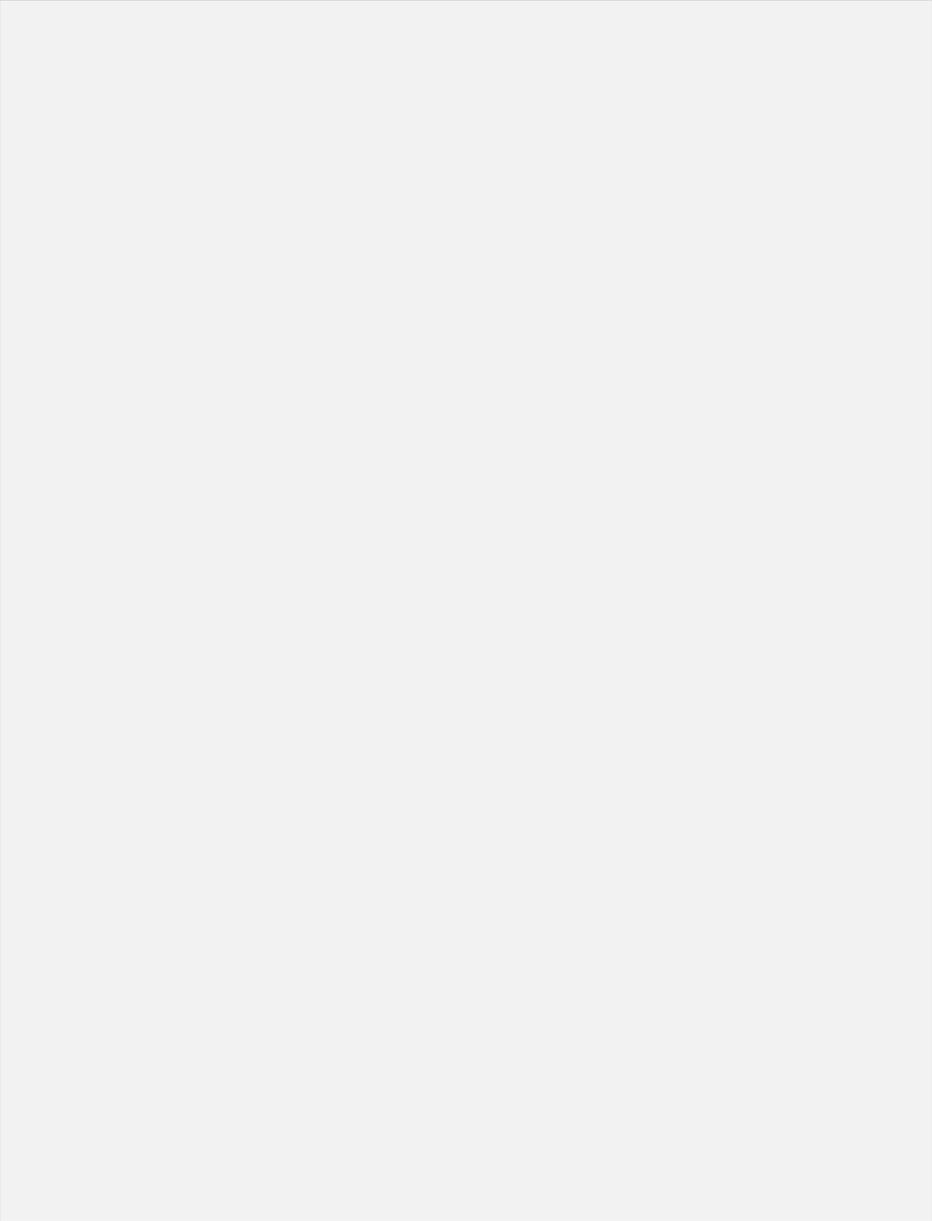
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building

Liverpool

L3 1PS

Xx July 2018





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