

The Audit Findings for Halton Borough Council

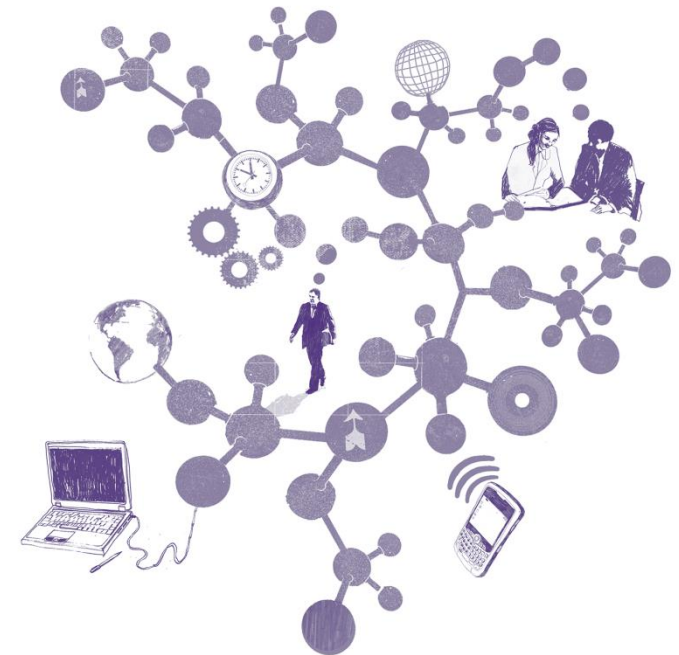
Year ended 31 March 2016

September 2016

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September 2016

Dear Members of the Business Efficiency Board

Audit Findings for Halton Borough Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Halton Borough Council, the Business Efficiency Board), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

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 primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

Mark Heap

Engagement Lead

Chartered Accountants

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Section 1: Executive summary

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02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Halton Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves as to whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated May 2016.

Our audit is substantially complete although at the time of writing we are finalising our procedures in the following areas:

- a few final items of testing for housing benefit and property, plant and equipment,
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have identified one adjustment affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded net expenditure of £119,051k; the audited financial statements show net expenditure of £119,756k. This change is primarily driven by a change made to the cash balance in relation to a school which transferred to academy status, but the cash relating to the school was not written out of the accounts.

Overall the financial statements were well presented and officers responded in a timely manner to our requests for information and queries.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix A).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- 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 information of which we are aware from our audit.

We have nothing to report in respect of the Annual Governance Statement.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Business and Efficiency Board once the work is complete.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Operational Director – Finance.

Acknowledgement

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.

Grant Thornton UK LLP
September 2016

Section 2: *Audit findings*

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £6,173k (being 1.8% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £300k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	We will ensure these disclosures are correctly disclosed subject to rounding and banding classification
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	We will ensure this is correctly stated, subject to rounding.
Related Party Transactions	Due to public interest in these disclosures.	We will determine materiality taking account of the size of the third party.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>For this Council, we have concluded that the greatest risk of material misstatement relates to the occurrence/existence of other income and receivables.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Halton Borough Council, we have determined that the risk of fraud arising from revenue recognition for income can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Halton Borough Council, mean that all forms of fraud are seen as unacceptable. <p>We consider the risk for revenue recognition relates to occurrence/existence of expenditure and payables.</p> <p>As part of our audit work we have completed:</p> <ul style="list-style-type: none"> • Identification and documentation of the processes and controls in place around expenditure at the Council • Testing of journal entries, control environment review and walkthrough • Testing of non pay expenditure as set out within 'Operating Expenses' on page 12 • Review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>

Audit findings against significant risks

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • Testing of journal entries • Review of accounting estimates, judgments and decisions made by management • Review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>
3	<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<ul style="list-style-type: none"> • Identification of the controls put in place by management to ensure that the pension fund liability is not materially misstated. Assessment of whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • Review of the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. Gained an understanding of the basis on which the valuation is carried out. • Undertook procedures to confirm the reasonableness of the actuarial assumptions made. • Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses</p>	<p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Identification and documentation of the processes and controls in place around operating expenditure at the Council • Walkthrough of a sample item to confirm our understanding • Substantive testing of a sample of non-pay expenditure • Reconciliation of accounts payable systems to general ledger and financial statements • Review of accruals process and substantive testing of a sample of manual accruals and creditor balances • Sample testing of payments around the year-end • Review and testing of other items of expenditure and disclosures including Minimum Revenue Provision (MRP) and members' allowances 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Employee remuneration</p>	<p>Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Identification and documentation of the processes and controls in place around employee remuneration at the Council • Walkthrough of a sample item to confirm our understanding • Substantive testing of a sample of payroll transactions • Reconciliation of payroll data to general ledger and financial statements • Substantive analytical review of payroll costs for the year • Substantive testing of senior officer remuneration disclosures • Review and testing of other pay disclosures including exit packages notes 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare benefit	Welfare benefit expenditure improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Identification and documentation of the processes and controls in place around welfare benefit payments at the Council • Walkthrough of a sample item to confirm our understanding • Substantive testing of claimant eligibility for a sample of welfare benefit payments • Reconciliation between Northgate welfare benefits system, the general ledger and the financial statements and supporting notes • Additional substantive testing on selected welfare benefit sample • Testing of Housing Benefit Subsidy Claim using the Audit Commission HB COUNT approach. 	Our audit work has not identified any significant issues in relation to the risk identified.



Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Valuation of property, plant and equipment</p>	<p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluation of 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.. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>



Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<p>The Council's accounting policy for income is as follows:</p> <p>Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.</p>	<p>The Council's accounting policy is in line with the requirements of the CIPFA code and is adequately disclosed in the accounts.</p> <p>Our testing of income, grants income and debtors confirmed that the Council is recognising income in line with its accounting policy.</p>	
<p>Judgements and estimates</p>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> – Useful life of Property, Plant and Equipment (PPE) – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Provision for National Non Domestic Rates (NDR) appeals 	<p>We have:</p> <ul style="list-style-type: none"> • reviewed the estimates and judgements made in the accounts as part of our work with no matters arising • sample tested valuations undertaken in the year to confirm they are appropriately included in the statement of accounts • reviewed the calculation of your provision for business rate appeals • reviewed assumptions and information in relation to the pension fund liability to assess reasonableness and check the liability figures are accurately reflected in the accounts. <p>No issues were identified from our work on the above.</p>	

Assessment

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Operational Director - Finance has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	
Other accounting policies		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 and with Code requirements.	

Assessment

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	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any incidents in the period. No other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We have previously requested from management permission to send confirmation requests to your bank and those bodies with which you hold investments. We received your bank letter and external confirmation for most of your investments. For those investments where external confirmations were not received we undertook alternative procedures, including agreeing the amounts to records held by the Council.
6.	Disclosures	<ul style="list-style-type: none"> Page 22 sets out the disclosure issues we have identified.

Other communication requirements continued

	Issue	Commentary
7.	Matters on which we report by exception	<p>We have not identified any issues where we would be required to report by exception in the following 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 information of which we are aware from our audit. • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.
8.	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. This work is not required at the Council because the Council does not exceed the threshold set for the completion of the work.</p>

Adjusted misstatements

One adjustment to the draft accounts was identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below sets out the adjustment arising from the audit which have been processed by management.

Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 We identified a school that had transferred to academy status in 2014-15 but for which the related cash balance of £704k was still included in the Council's accounts. This meant the Council's cash balance was over stated by £704k.	704	(704)	704
Overall impact	£704	£(704)	£704

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The [ABC] Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1 We identified that within the workings for the Cash Flow Statement there is a balancing figure of £879k. Officers have reviewed their workings to try and establish the reason for this but at this stage are unable to identify what the balancing figure may relate to. Officers have undertaken to keep this under review and to try to resolve it in the 2016/17 accounts. This does not impact on the Balance Sheet or the Comprehensive Income and Expenditure Statement.	N/A	N/A	Unable to pinpoint the reason for the balancing figure at this time.
2 As part of our review of Assets Held for Sale we identified that the closing balance for 2015/16 was understated by £801k. This is because the valuation of properties at Johnson's Lane was not updated for the latest valuation by Property Services. Assets Held for Sale on the Balance Sheet and in Note 20 is understated by £801k. Officers have undertaken to adjust this in the 2016/17 accounts.	N/A	801 (801)	To be adjusted in 2016/17.
Overall impact	£0	£0	

Misclassifications 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 £'000	Account balance	Impact on the financial statements
1 Misclassification	1,856	N/A	Movement in Reserves Statement - review of Movement in Reserves Statement entries highlighted a reserve movement of £1,856k incorrectly included in 'Revaluation losses on PPE' rather than 'Amounts of Non-Current Assets Written Off on Disposal'. This is a misclassification and does not impact on the accounts overall. The misclassification has now been corrected.
2 Disclosure	378	11,846	Note 25 – Leases – the value of future operating lease rentals is understated by £378k because the most recent rental valuation for a property had not been used. This only impacts on the figures within this note and does not impact on the accounts overall. The figure has been corrected.
2 Disclosure	2,394	33,939	Note 30 – Financial Instruments – an amount of £2,394k was incorrectly included in the figure for Financial Liabilities at amortised cost within note 30. It should have been excluded as it relates to a statutory transaction which should not be included within financial instruments. This only impacts on the figures within this note and does not impact on the accounts overall. The figure has been corrected to exclude this amount.

Misclassifications 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 £'000	Account balance	Impact on the financial statements
4 Disclosure	10,241	33,939	Note 30 – Financial Instruments – an amount of £10,241k was incorrectly included in the figure for Financial Liabilities at amortised cost within note 30. It should have been excluded as it relates to receipts in advance which should not be included within financial instruments. This only impacts on the figures within this note and does not impact on the accounts overall. The figure has been corrected to exclude this amount.
5 Disclosure	3,205	16,241	Note 30 – Financial Instruments – an amount of £3,205k was incorrectly included in the figure for loans and receivables within note 30. It should have been excluded as it relates to prepayments which should not be included within financial instruments. This only impacts on the figures within this note and does not impact on the accounts overall. The figure has been corrected to exclude this amount.
6 Misclassification	5,000	49,603	Note 30 – Financial Instruments – the maturity analysis misclassified an amount of £5,000k in relation to a loan as being due in less than 1 year when in fact it is a long term loan. This only impacts on the figures within this note and does not impact on the accounts overall. The figures have been corrected.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

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Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in April 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated May 2016. Our findings in relation to these risks are set out on page 27.

Risks identified in our initial risk assessment:

Financial outlook

The council does not have a history of financial difficulty but the position is beginning to become more challenging. Initially a budget gap of £16m was identified for 16-17. This has now been addressed and savings and efficiencies identified but there remain budget gaps for the following three years.

Ofsted inspection of children's services

The most recent Ofsted report on children's services looked at a number of areas. The overall judgement was that children's services require improvement. This related to children who need help and protection, and leadership, management and governance. The Council did get a score of 'good' for children looked after and achieving permanence (both for adoption performance and experiences and progress of care leavers). Although the main risk would be if the mark was 'inadequate' we still need assurance the Council is addressing the recommendations as this is a high profile area.

Our assessment of the evidence and our actual findings in respect of these two potential risks is given on page 27 under Key Findings.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. 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.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

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:

- a review of the budget outturn for 2015-16 and the consideration of any issue which may impact on Council finances in the near future
- review of the action plan to address the recommendations made by Ofsted and the arrangements to monitor progress against the action plan
- a review of key documents and discussion of issues with key officers.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

Overall conclusion

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

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix A.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Financial outlook The Council does not have a history of financial difficulty but the position is beginning to become more challenging. Initially a budget gap of £16m was identified for 2016/17. This has now been addressed and savings and efficiencies identified but there remain budget gaps for the following three years.</p>	<p>Review of the budget setting process for 2015/16 and how the outturn was monitored through the year.</p> <p>Review of the medium term financial plan.</p> <p>Review of savings proposals for 2016/17.</p> <p>Review of proposals for fees and charges.</p>	<p>The Council has managed its finances carefully through 2015/16 in order to produce a positive year end outturn. It has continued this approach into 2016/17 so that the savings required to deliver a balanced budget are being monitored as the year progresses. This will need to continue through the remainder of the year in order to ensure that planned savings are being delivered or that appropriate action is taken to address any slippage, in order to achieve the budgeted outturn in 2016/17.</p> <p>The Council continues to forecast that it will face significant financial challenges in the period to 2019/20. The latest update to the Medium Term Financial Strategy continues to predict a gap of £17.5m for 2017/18, £9.2m for 2018/19 and £8m for 2019/20. The Council is now working to identify further savings and efficiencies to address the gaps.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place.</p>
<p>Ofsted inspection of children's services The most recent Ofsted report on children's services looked at a number of areas. The overall judgement was that children's services require improvement. This related to children who need help and protection, and leadership, management and governance. The Council did get a score of 'good' for children looked after and achieving permanence (both for adoption performance and experiences and progress of care leavers). Although the main risk would be if the mark was 'inadequate' we still need assurance that the Council is addressing the recommendations as this is a high profile area.</p>	<p>Review of action plan and monitoring reports showing progress against the action plan.</p> <p>Review of work with partner and community organisations to improve Children's Services via minutes of meetings - for example the Investing in Children and Young People Board and review of the Children in Care Council (CICC) - Halton - work plan.</p> <p>Review audits undertaken internally to monitor progress.</p>	<p>The Council put into place an action plan to address the recommendations made by Ofsted and have monitored progress against these actions throughout the time since the Ofsted report.</p> <p>There are also regular performance reports produced to aid in monitoring the overall performance of Children's Services and a specific business plan for Children's Services has been put into place to ensure that the service improves and meet requirements going forward.</p> <p>Overall the Council has responded to the 'Requires Improvement' OFSTED report appropriately. The service was assessed as 'Requires Improvement' rather than 'inadequate' and was 'good' in some of the categories, so we have assessed whether the Council has the arrangements in place to address the improvements required. The Council has put into place appropriate action plans which are monitored at a strategic and operational level and are working in partnership with other agencies and with local children themselves to improve.</p>

Significant difficulties in undertaking our work

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

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.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Council audit	105,924	105,924
Grant certification	6,828	TBC
Total audit fees (excluding VAT)	112,752	TBC

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

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services:	
• Teacher's Pension grant claim *	3,750
• Homes and Communities Agency **	TBC
• Mersey Gateway **	TBC
Non-audit services	
Vat reviews	10,375

* Teacher's Pension grant claim – fee agreed, work still to be undertaken.

** Work programme and fee to be agreed.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Audit opinion

We anticipate we will provide the Council with an unmodified audit report or amend as appropriate

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HALTON BOROUGH COUNCIL

We have audited the financial statements of Halton Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

Respective responsibilities of the Operational Director - Finance and auditor

As explained more fully in the Statement of the Operational Director - Finance Responsibilities, the Operational Director - Finance 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Operational Director - Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority’s arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements to secure 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.

We are required under Section 20(1)(c) of the Act 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,

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether 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 these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

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

4 Hardman Square
Spinningfields
Manchester
M3 3EB

Date to be confirmed (2016)



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