

The Audit Findings for Halton Borough Council

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.

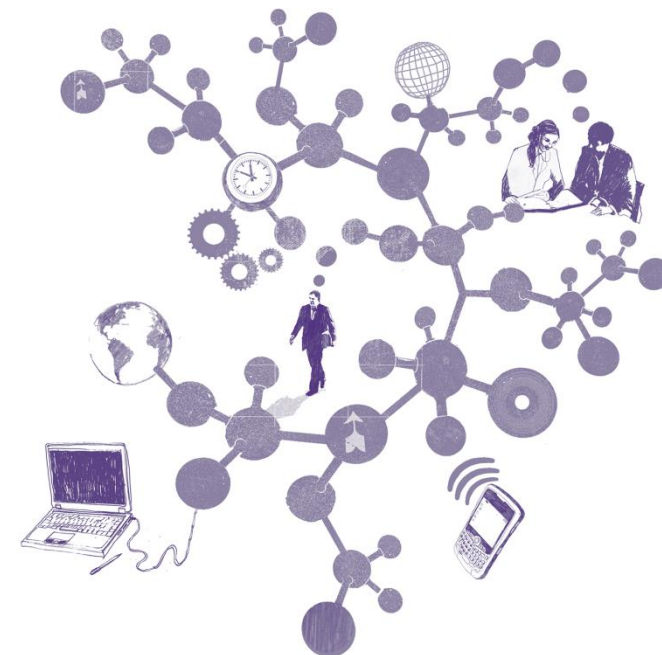
Year ended 31 March 2017

September 2017

Mark Heap
Director
T 0161 234 6375
E mark.r.heap@uk.gt.com

Georgia Jones
Manager
T 0161 214 6383
E georgia.s.jones@uk.gt.com

Patrick McCloskey
Executive
T 0151 224 7200
E patrick.j.mccloskey@uk.gt.com





Members of the Business Efficiency Board
Halton Borough Council
Municipal Building
Widnes
WA8 7QF

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester
M3 3EB
T +44 (0)161 953 6900
www.grant-thornton.co.uk

September 2017

Dear Members of the Business Efficiency Board

Audit Findings for Halton Borough Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Halton Borough Council, the Business Efficiency Board), to oversee the financial reporting process, 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 auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. 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 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on 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 year.

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 April 2017.

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

- 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 and;
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments 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 2017 recorded net expenditure of £126,564,000 the audited financial statements show net expenditure of £126,564,000. We have also recommended a number of adjustments to improve the presentation of and the disclosure within the financial statements.

The accounts presented for audit were of good quality and were supported by detailed working papers in line with our agreed requirements.

Further details are set out in section two of this report.

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 AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

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 2017. We will report the outcome of this certification work through a separate report to the Business Efficiency Board.

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 and the finance team.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Operational Director - Finance and the finance team.

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 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £6,902k (being 2% 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 £250k. 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 senior manager salaries and allowances | Due to public interest in these disclosures and the statutory requirement for them to be made. | A materiality level of £20,000 has been set. |
| Related Party transactions | Due to public interest in these disclosures. | A materiality level of £20,000 has been set. However individual mis-statements will also be evaluated with reference to how material they are to the other party. |

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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 |
|--|--|---|
| <p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams 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>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 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 therefore do not consider this to be a significant risk for the Council.</p> | <p>Our audit work has not identified any issues in respect of revenue recognition.</p> |
| <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"> • Review of accounting estimates, judgments and decisions made by management • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • 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 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> |

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

| Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|---|---|---|
| <p>The expenditure cycle includes fraudulent transactions Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets.</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 p12 • Review of unusual significant transactions | <p>Our audit work has not identified any issues in respect of expenditure recognition.</p> |
| <p>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.</p> | <ul style="list-style-type: none"> • We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We undertook procedures to confirm the reasonableness of the actuarial assumptions made. • We 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 the pension fund net liability.</p> |

Audit findings against other risks - RPRs

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|----------------------------------|--|--|---|
| <p>Operating expenses</p> | <p>Year end creditors and accruals are understated or not recorded in the correct period</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 • Compliance testing of key controls within the system • Substantive testing of a sample of non-pay expenditure • Reconciliation of accounts payable system to financial 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 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> |

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks – RPRs continued....

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|-------------------------------------|---|---|---|
| <p>Employee remuneration</p> | <p>Employee remuneration accruals are understated</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 • Compliance testing of key controls within the system • Substantive testing of a sample of non-pay expenditure • Reconciliation of payroll data to financial 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> |

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks - RPRs continued.....

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|-------------------------|---|---|---|
| Valuation of PPE | <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 the current value. This represents a significant estimate by management in the financial statements.</p> | <ul style="list-style-type: none"> • Review of management's processes and assumptions for calculation of the estimate • Review of the competence, objectivity and expertise 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 itself 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> |

Audit findings against other risks

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|---|---|---|--|
| <p>Changes to the presentation of local authority financial statements</p> | <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p> | <ul style="list-style-type: none"> • Documentation and evaluation of the process for the recording the required financial reporting changes to the 2016/17 financial statements. • Review of the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. • Review of the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). • Testing of the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. • Testing of the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. • Testing of the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. • Review of the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. | <p>Our audit work has not identified any significant issues in relation to the risk identified</p> |

Audit findings against other risks continued

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that it is appropriate to prepare the financial statements on a going concern basis.

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 |
|---------------------------------|--|---|--------------|
| Revenue recognition | <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> | Green |
| Judgements and estimates | <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> | Green |

Assessment

Red Marginal accounting policy which could potentially attract attention from regulators

Amber Accounting policy appropriate but scope for improved disclosure

Green Accounting policy appropriate and disclosures sufficient

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 2016/17 financial statements. | Green |
| 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. | Green |

Assessment

Red Marginal accounting policy which could potentially attract attention from regulators

Amber Accounting policy appropriate but scope for improved disclosure

Green Accounting policy appropriate and disclosures sufficient

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 Business Efficiency Board. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. |
| 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. We identified two minor issues which are set out on page 24. |
| 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"> Our review found some disclosure issues within the financial statements and these are set out on page 24. None of the omissions identified were material to the understanding of the accounts. |

Other communication requirements continued

| | Issue | Commentary |
|----|--|--|
| 7. | Matters on which we report by exception | <ul style="list-style-type: none"> • We are required to report on a number of matters by exception in a number of areas: <p>We have not identified any issues 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 Group/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.</p> <p>As the Council exceeds the specified group reporting threshold of £350m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. At the time of writing the work is ongoing and we will update members at the Business Efficiency Board meeting.</p> |

Internal controls

| | Assessment | Issue and risk | Recommendations |
|----|--------------|---|--|
| 1. | Amber | The year end bank reconciliation for the receipts account included an unreconciled amount of £11k. The latest bank reconciliation has been reviewed and all items reconcile. However, the year end bank reconciliation should be fully reconciled to ensure cash values are accurate. | We have examined the latest bank reconciliation and confirmed all amounts have been reconciled. The Council should ensure that all bank reconciliations fully reconcile in future. |

Assessment

Red Significant deficiency – risk of significant misstatement

Amber Deficiency – risk of inconsequential misstatement

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.

Other controls were found to be operating effectively and we have no further matters to report to the Audit and Governance Committee

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

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 Business and Efficiency Board 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 Our testing of Community Assets identified that expenditure on Runcorn Hill Park had been included in the Council's asset register although the Council did not own the park. We reviewed all other parks included in the asset register and identified expenditure on an additional park - Crow Wood Park - that is also not owned by the Council. In total Community Assets are overstated by £1.63m in the council's accounts. The accounts have not been amended to correct this. | | (1,630) | Officers believe this is immaterial to the results of the Council and the year-end financial position but will adjust this for the 17/18 set of accounts |
| 2 Our review of the bad debt provision across service areas identified that the bad debt provision was either under or over provided for in each service area. When aggregated these amounts indicate an over provision of £49,388. Whilst this is not significant as an overall figure, the bad debt provisions should tie back to supporting information because this is an area of judgement/estimation. | (50) | 50 | Officers believe this is immaterial to the results of the Council and the year-end financial position but will adjust this for the 17/18 set of accounts |
| Overall impact | £(50) | £(1,580) | |

Impact of uncorrected misstatements in the prior year

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 | Reason for not adjusting |
|--|--|------------------------|---|
| 1 We identified in 2015/16 that within the workings for the Cash Flow Statement there was a balancing figure of £879,000. Officers were at that stage unable to identify what the balancing figure may relate to. Officers kept this under review in the 2016/17 accounts and the balancing figure has been reduced to £144,000. 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 but to be kept under review in 2017/18. |
| 2 As part of our review of Assets Held for Sale in 2015/16 we identified that the closing balance was understated by £801,000. This is because the valuation of properties at Johnson's Lane were not updated for the latest valuation by Property Services. This has now been corrected and we have not identified any further issues in our testing of valuations. | N/A | N/A | Adjusted in 2016/17 |
| Overall impact | N/A | N/A | |

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 £'000 | Impact on the financial statements |
|---------------------|----------------|--------------------------|---|
| 1 Disclosure | N/A | N/A | Note 13 – Related Party Transactions - Our review of the Gifts and Hospitality register identified two entries where no estimated value was given. We are satisfied these items are unlikely to be of significant value but estimated values should be included to ensure a decision can be made regarding significance of the item |
| 2 Disclosure | N/A | N/A | Note 13 – Related Party Transactions - Senior officers are required to complete a year end declaration for related party relationships. Our review identified that the declaration for one senior officer had not been received. This has now been completed and no significant issues identified but the council should ensure that all declarations are received on a timely basis to feed into the accounts process. |
| 3 Disclosure | 130,800 | 398,137 | Note 17 - Property, Plant and Equipment did not include disclosure of capital commitments as required by the Code. The note has now been amended to include the required information. |
| 4 Misclassification | 10,086 | 198,146 | Note 33 – Financial Instruments - The fair value of long term financial liabilities of £198,146k incorrectly included an amount of £10,086k in relation to short term borrowings. The accounts have been amended to correct this. |

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

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 2016. AGN 03 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.

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 February 2017 and identified one significant risk 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 April 2017.

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 2016/17 and the consideration of any issue which may impact on Council finances in the near future
- 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 on page 28.

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. When we carried out our risk assessment, the Council was forecasting a year-end outturn overspend position of around £1m against a budget of £98.5m, which it was intending to fund from general reserves. For 2017/18 a budget gap of £11.7m was identified. Savings and efficiencies have now been identified to address this gap, but the Council continues to face a challenging financial position.</p> | <p>We reviewed budget monitoring reports and updates to the Medium Term Financial Plan. We discussed with officers plans to address future potential budget gaps and how the Council is identifying, managing and monitoring financial risks. We reviewed revenue and capital reports.</p> | <p>The Council continues to manage its finances in order to deliver services aligned to the needs of the local community. In terms of overall financial performance the Council over spent on its budget by £0.559m against a budget of £98.468m in 2016/17. The overspend position had been highlighted throughout the year and at the end of December 2016 was forecast to be in the region of £1m by year-end so was reduced in the last quarter. The over spend was due to a number of spending pressure areas against the Council's budget; the most significant of these was within Children in Care.</p> <p>The over spend has been funded from the general reserve but the Council recognises it would not be prudent to continue to fund any future budget shortfalls from general reserves and is taking steps to ensure this does not happen. Although the Council over spent in 2016/17, arrangements were in place to identify this and monitor it through the year and via this the Council was able to reduce the forecast over spend. Therefore we are able to conclude appropriate arrangements are in place.</p> <p>A balanced budget has been set for 2017/18 including a £1m contingency. Initially there was a £11.7m gap in the budget funding for 2017/18. The Council has identified savings to bridge this gap with £7.9m initially identified and the final savings needed confirmed as part of the budget setting process. The gap in the Medium Term Financial Plan over the subsequent three financial years (2018/19 to 2020/21) is forecast to be in the region of £23.426m. The Council are working on identifying savings and alternative ways of working in order to bridge these gaps.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</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

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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 | 105,294 | 105,294 |
| Grant certification (Housing benefit) | 8,055 | 8,055 |
| Total audit fees (excluding VAT) | 113,349 | 113,349 |

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'.

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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all other services which were identified.

Fees for other services

| Service | Fees £ |
|--------------------------------|-------------|
| Audit related services: | |
| • Mersey Gateway | 2,500 (TBC) |
| • Teacher's Pension | 3,750 (TBC) |
| Non-audit services: | |
| • VAT | 14,250 |

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place

| | Service provided to | Fees | Threat? | Safeguard |
|-------------------------------|---|--------|---------|--|
| Audit related services | Halton Council – Mersey Gateway grant claim The fee for the work on this claim is yet to be agreed for 2016/17 however has been £2,500 in previous years and is likely to be the same for 2016/17 | TBC | No | The fee is of a low amount compared to the overall audit fee of £105,294 so would not impact on our independence as auditors. An Ethical Standards form is completed prior to work commencing to ensure all threats have been identified and considered. |
| | Halton Council – Teacher's Pension grant claim The fee for the work on this claim is yet to be agreed for 2016/17 however has been £3,750 in previous years and is likely to be the same for 2016/17 | TBC | No | The fee is of a low amount compared to the overall audit fee of £105,294 so would not impact on our independence as auditors. An Ethical Standards form is completed prior to work commencing to ensure all threats have been identified and considered. |
| Non-audit services | Halton Council – VAT advice | 14,250 | No | This work took place in 2016/17. Under the new ethical standard which came into force on 1 April 2017 we are no longer able to complete this work for the Council. |
| | TOTAL | TBC | | |

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

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04. Fees, non audit services and independence

05. Communication of audit matters

Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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, or emphasis of matter | | ✓ |
| Unadjusted misstatements and material disclosure omissions | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | ✓ | ✓ |

Appendices

A. Audit Opinion

A: Audit opinion

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

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

We have audited the financial statements of Haltom Borough Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, 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 2016/17.

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 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.

Respective responsibilities of the – Operational Director, Finance and auditor

As explained more fully in the Statement of 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements are prepared 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: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act 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 Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**Respective responsibilities of the Authority and auditor**

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.

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 for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 this criteria 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 2017.

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 form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of 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 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency

and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

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

4 Hardman Square
Spinningfields
Manchester
M3 3EB

September 2017



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