

Audit Findings

Year ending 31 March 2018

Halton Borough Council

25 July 2018

DRAFT

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



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

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

<p>Financial Statements</p>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council's financial statements give a true and fair view of the Council's financial position and Council's expenditure and income for the year, and have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work is taking place during July. Our findings are summarised in this report. At the time of writing we are in the process of completing our testing and will update the Business Efficiency Board on the final results of our work at the July meeting.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Business Efficiency Board meeting on 25 July 2018. These outstanding items include:</p> <ul style="list-style-type: none"> completion of sample testing in a number of areas; receipt of letter of representation and review of the final set of financial statements and narrative report. <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.</p>
<p>Value for Money arrangements</p>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion') 	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Halton Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 12 to 14</p>
<p>Statutory duties</p>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and certify the closure of the audit 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code. We expect to be able to certify the completion of the audit when we give our audit opinion providing the work in respect of the Whole of Government Accounts is complete.</p>

Acknowledgements

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

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- an evaluation of the Council's internal controls environment including its IT systems and controls
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Business Efficiency Board meeting on 25 July 2018. These outstanding items include:

- completion of sample testing in a number of areas;
- receipt of letter of representation and
- review of the final set of financial statements and the narrative report.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our assessment of materiality for Halton Borough Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	7.116,000	This equates to 2% of your gross expenditure for the 2016/17 year.
Performance materiality	5.337,000	Previous quality of the working papers and response to audit process. Quality of financial systems and processes and the nature of the Council's expenditure and income streams.
Trivial matters	355,000	Standard level of 5 per cent of materiality used.
Materiality for specific transactions, balances or disclosures	See aside	Updated to reflect the latest guidance. The remuneration report is an item of special interest and sensitivity. We have set a lower level of materiality so that our testing ensures individuals are reported on within the correct bands. Senior manager remuneration £174,000

Significant audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

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

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

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Halton Borough Council, mean that all forms of fraud are seen as unacceptable

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

2

Management override of controls

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

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

We have undertaken the following work in relation to this risk:

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

Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of property, plant and equipment

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

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

We have undertaken the following work in relation to this risk:

- reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- considered the competence, expertise and objectivity of any management experts used
- discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions
- reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding
- tested revaluations made during the year to ensure they are input correctly into the Council's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

At the time of writing we are still completing our testing in this area.

4

Valuation of pension fund net liability

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

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

We have undertaken the following work in relation to this risk:

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

Our work has not identified any significant issues in this area.

Reasonably possible audit risks

Risks identified in our Audit Plan

Commentary

7

Employee remuneration

Payroll expenditure represents a significant percentage (35%) of the Council's operating expenses.

As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness
- gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls
- obtained year-end payroll reconciliation and ensured amount in accounts can be reconciled to ledger and through to payroll reports. Investigated significant adjusting items
- agreed payroll related accruals (e.g. unpaid leave accrual) to supporting documents and reviewed any estimates for reasonableness
- performed substantive analytical review.

At the time of writing we are still completing our testing in this area.

8

Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage (50%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

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

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness
- gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls
- obtained and reviewed the year-end reconciliation, and investigated any significant reconciling items
- tested a sample of non-pay payments made in April to test whether they are accounted for in the correct year
- tested a sample of non pay expenditure to confirm it is accurately accounted for in the financial statements.



At the time of writing we are still completing our testing in this area.

Other issues




This section provides commentary on issues and risks which were identified during the course of the audit that were not previously separately communicated in the Audit Plan

Issue	Summary of work performed	Findings & conclusion
<p>1 As part of our review of the Council's non current assets we have undertaken work to review the valuation and accounting treatment in respect of the Mersey Gateway Bridge.</p>	<p>We have undertaken the following work:</p> <ul style="list-style-type: none"> • test the appropriateness of basis of the valuation and the accuracy of the figures used • ensure the valuation complies with Code requirements • ensure the bridge is accounted for correctly throughout the financial statements • test the validity of the model used to calculate the unitary charge and that all elements of the repayments are accounted for correctly 	<p>Our review identified that depreciation had not been charged on the bridge in 2017/18. The bridge opened for use on 13 October 2017 and under Code requirements an asset should be depreciated from the time it is available for use.</p> <p>Officers have calculated depreciation for the period from the opening of the bridge to 31 March 2018 which results in a depreciation charge of £12.052m. Officers have undertaken to amend the financial statements to reflect this.</p> <p>At the time of writing we are awaiting sight of the contract in order to verify the amounts within the accounts back to the agreement.</p> <p>We have not identified any other significant issues in relation to the accounting treatment of the bridge.</p>



Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> The Council's accounting policy for income is as follows: 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 This should include all material sources of income, e.g. fees and charges, grants Council Tax, NNDR. 	<ul style="list-style-type: none"> The Council's accounting policy is in line with the requirements of the CIPFA code and is adequately disclosed in the accounts. Our testing of income, grants income and debtors confirmed that the Council is recognising income in line with its accounting policy. 	<p>Green</p> 
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 (NNDR) appeals Pension liabilities 	<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 reviewed/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>Our work has not identified any significant issues.</p>	<p>Green</p> 




Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Going concern	<ul style="list-style-type: none"> 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 2017/18 financial statements.	Green 
Other critical 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

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  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. No issues have been identified during the course of our audit procedures.
2	Matters in relation to related parties	<ul style="list-style-type: none"> Our work identified some related parties who whilst the Council's transactions with them were not material, would likely be material to the other party and as such should be disclosed. No other issues were identified
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, which is included on the agenda for the Business Efficiency Board.
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 have received the required external confirmations.
6	Disclosures	<ul style="list-style-type: none"> We have not identified any significant issues in relation to disclosure.
7	Audit evidence and explanations	<ul style="list-style-type: none"> All information and explanations requested to date from management have been provided.
8	Significant difficulties	<ul style="list-style-type: none"> None identified

Other responsibilities under the Code

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

Issue	Commentary
<p>① Other information</p>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. However some areas for improvement in terms of disclosure within the narrative report were identified and officers made some adjustments to reflect these matters. At the time of writing, these adjustments were under review.</p> <p>We plan to issue an unqualified opinion in this respect subject to final review of the changes to the report.</p>
<p>② Matters on which we report by exception</p>	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
<p>③ Specified procedures for Whole of Government Accounts</p>	<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 £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>The work has not yet been completed; the deadline for completion is the end of August.</p>
<p>④ Certification of the closure of the audit</p>	<p>We are unable to certify the closure of the 2017/18 audit of Halton Borough Council until the completion of the procedures in relation to Whole of Government Accounts. We expect to certify the closure of the audit by the end of August.</p>

Value for Money

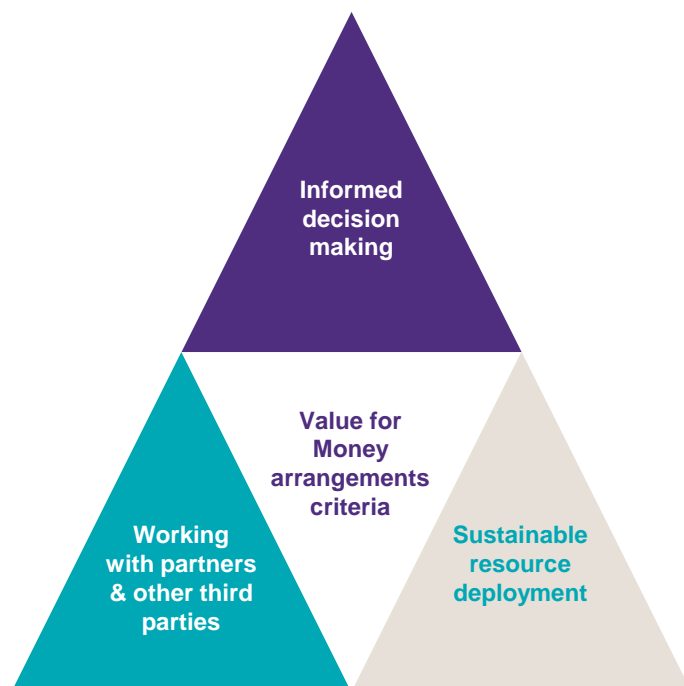
Background to our VFM approach

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

The guidance identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in January 2018 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 January 2018.

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 risk 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.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- review of budget monitoring reports and updates to the Medium Term Financial Plan
- consideration of plans to address future potential budget gaps and how the Council is identifying, managing and monitoring financial risks
- review and monitoring of revenue and capital reports

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 14.

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 E.

Recommendations for improvement

We discussed findings arising from our work with management.

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.

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	Findings	Conclusion
1	<p>Financial position and sustainability</p> <p>The Council does not have a history of financial difficulty but the position is beginning to become more challenging.</p> <p>At the latest review of budget performance the Council was forecasting a £3-4m over spend against budget mainly due to pressures on Children's Social Services and Adult Social Services. Plans have been put into place to try to reduce the potential over spend before the end of the year. The Council is in the process of setting the budget for 2018/19</p>	<p>The financial position of the Council is becoming increasingly challenging. In 2017/18 the Council overspent its budget by £1.026m compared to an overspend of £0.559m in 2016/17. This was an overall improved position from the forecast overspend reported in quarter 3 of £3.5m. At that time the Council identified and implemented corrective action to reduce the final overspend to just over £1m. The over spend was due to a number of spending pressure areas against the Council's budget; the most significant of these was within the Children and Families department.</p> <p>The over spend was funded from the general reserve. This initially reduced the general fund reserve to a relatively low level but the Council was able to review their current earmarked reserves and identify reductions which could be transferred to the general fund reserve to bring it up to around £5m.</p> <p>Although the Council over spent in 2017/18, 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 2018/19 including a £600,000 contingency and an additional £3m of funding to assist with meeting the current overspend in Children's Services costs. Initially there was a £11.7m gap in the budget funding for 2017/18. The gap in the Medium Term Financial Plan over the subsequent three financial years (2019/20 to 2021/22) is forecast to be around £23m. The Council are working on identifying savings and alternative ways of working in order to bridge these gaps.</p>	<p>Auditor view</p> <ul style="list-style-type: none"> On this basis we have concluded that the risk was sufficiently mitigated and the Council has proper arrangements. The Council will need to continue to monitor spending and the achievement of savings closely through the coming year to ensure budgeted spending is met.

Independence and ethics

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

Service	£	Threats	Safeguards
Audit related			
Teachers' Pension return	3,750 (TBC)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,750 in comparison to the total fee for the audit of £105,294 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Mersey Gateway (Department for Transport)	2,500 (TBC)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,500 in comparison to the total fee for the audit of £105,294 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Housing Benefit Subsidy Return	6,828	Self-Interest (because this is a recurring fee)	This fee is set by Public Sector Audit Appointments and is not considered a significant threat to independence as the fee for this work is 6,828 in comparison to the total fee for the audit of £105,294 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO Insights	12,500	Self-Interest (because this is a recurring fee)	The fee is a subscription, planned to be recurring and is therefore high self-interest threat. However, the fee for this work is negligible in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. It is also a fixed fee with no contingent element. These factors all mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Operational Director – Finance. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

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 Depreciation in relation to the Mersey Gateway Bridge	12,052	(12,052)	0
It should be noted that Depreciation is reversed out of the CIES and so has no overall impact on net expenditure.			
Overall impact			

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Accounting policies	Accounting policies - one area for improvement identified in relation to Mersey Gateway. The valuation is partly historical cost and partly unitary payments. As this is not a typical measurement basis for an infrastructure asset, which would be at historical cost, the accounting policy needs to set out clearly the split between historical cost and unitary charges	The accounting policy should be updated to reflect the Council's treatment of the asset	Yes
Grants – note 7	During our review and testing of grants we identified that note 7 includes within the analysis £2,462,000 that relates to trade creditors. This should not be included in the grants note as it does not relate to grant income; it should be included within the creditors note. This is a disclosure issue and does not impact on the figures in the balance sheet.	Note 7 and note 25 require amendment.	Yes
Related Parties – note 13	Our work identified some related parties who whilst the Council's transactions with them were not material, they would likely be material to the other party and as such should be disclosed.	Where transactions are material to the other party these should be disclosed within the note.	Yes
Creditors - note 25	Note 25 – Creditors should separately disclose the short term liabilities in relation to PFI and Mersey Gateway. These amounts are currently included within 'Other Entities and Individuals' in the note.	Short term liabilities in relation to PFI and Mersey Gateway should be disclosed separately.	Yes
Contingent Liabilities – note 33	Financial instruments includes a long term loan from the Council to an SME for £2,000,000. This has not been valued at fair value. The difference in carrying value and fair value will not be material.	The council should disclosure fair values for long term assets where appropriate.	No

Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit	£105,294	£105,294
Grant Certification	£6,828	£6,828
Total audit fees (excluding VAT)	£112,122	£112,122

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Non Audit Fees

Fees for other services	Fees £
Audit related services:	
• Mersey Gateway (Department for Transport)	2,500 (TBC)
• Teachers' Pension return	3,750 (TBC)
Non-audit services	
• CFO Insights	12,500
	£18,750

Audit opinion

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

Independent auditor's report to the members of Halton Borough Council

Report on the Audit of the Financial Statements

Opinion

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

In our opinion the financial statements:

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

Basis for opinion

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

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to

them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

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

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

Other information

The Operational Director - Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 15 to 119, the Narrative Report and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority, the Operational Director - Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 98, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Operational Director – Finance. 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 2017/18, which give a true and fair view, and for such internal control as the Operational Director - Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Business Efficiency Board is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

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

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

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

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

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

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

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

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

Report on other legal and regulatory requirements

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Signature

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

Grant Thornton UK LLP
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Date:



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