



Annual Audit Letter

Year ending 31 March 2018

Halton Borough Council

August 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Halton Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Business Efficiency Board as those charged with governance in our Audit Findings Report on 25 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £7,116,000, which is 2% of the Council's gross revenue expenditure.
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Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2018.
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Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
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Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2018.
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Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Business Efficiency Board in our Annual Certification Letter.
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Certificate	We will certify that we have completed the audit of the accounts of Halton Borough Council in accordance with the requirements of the Code of Audit Practice when we have completed our review of the Council's Whole of Government Accounts submission. This will be done by the deadline of 31 August 2018.
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We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's accounts to be £7,116,000, which is 2% of the Council's gross revenue expenditure for 2016/17. We revisited this in receipt of the 2017/18 draft financial statements and concluded it remained appropriate. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £117,000 as this area is an item of special interest and sensitivity/

We set a lower threshold of £355,000, above which we reported errors to the Business Efficiency Board in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts, the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition</p> <p>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>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:</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 at Halton Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore, we did not consider this to be a significant risk for Halton Borough Council.</p>	<p>Whilst we rebutted this risk, our other work on the Council's income including council tax, non domestic rates, grants and other income did not identify any issues.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p>	<p>We have:</p> <ul style="list-style-type: none">• 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 any unusual journal entries for appropriateness• evaluated the rationale for any changes in accounting policies or significant unusual transactions.	<p>Our audit work has not identified any issues in respect of management override of controls.</p>

Audit of the Accounts

Significant Audit Risks *(continued)*

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension liability</p> <p>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.</p>	<p>We have:</p> <ul style="list-style-type: none">▪ 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.	<p>Our work did not identified any significant issues in this area</p>

Audit of the Accounts

Significant Audit Risks *(continued)*

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of plant, property and equipment</p> <p>The Council revalues its land and buildings on an 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.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration..</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none">▪ 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.	<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 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 amended the financial statements to reflect this.</p> <p>We have not identified any other significant issues in relation to the accounting treatment of the bridge or the valuation of property, plant and equipment..</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, in line with the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Business Efficiency Board on 25 July 2018.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. The Council included the Narrative Report within the statement of accounts and published the Annual Governance Statement on its website alongside the Statement of Accounts in line with the national deadlines.

Some areas for improvement in terms of disclosure within the narrative report were identified and officers made some adjustments to reflect these matters. The Annual Governance Statement was prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We are continuing to carry out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We will issue an assurance statement when our work is complete. This will be done by the deadline of 31 August 2018.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Halton Borough Council in accordance with the requirements of the Code of Audit Practice. This will be done once the WGA work is completed.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018

Value for Money conclusion

Key Value for Money risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<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>As part of our audit we:</p> <ul style="list-style-type: none">• reviewed budget monitoring reports and updates to the Medium Term Financial Plan• discussed with officers plans to address future potential budget gaps and how the Council is identifying, managing and monitoring financial risks• reviewed and monitored revenue and capital reports.	<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>Conclusion</p> <p>On this basis we have concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</p> <p>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.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	January 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	105,294	105,294	105,294
Housing Benefit Grant Certification	6,828	6,828	8,055
Total fees	112,122	112,122	113,349

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

Fees for non-audit services

Service	Fees £
Audit related services	
- Teachers Pension	3,750 (TBC)
- Dept for Transport – Silver Jubilee Bridge	TBC
Non-Audit related services	
- CFO Insights	12,500

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 table above summarises all non-audit services which were identified.
- We have considered whether non-audit 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.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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