



# The Annual Audit Letter for Halton Borough Council

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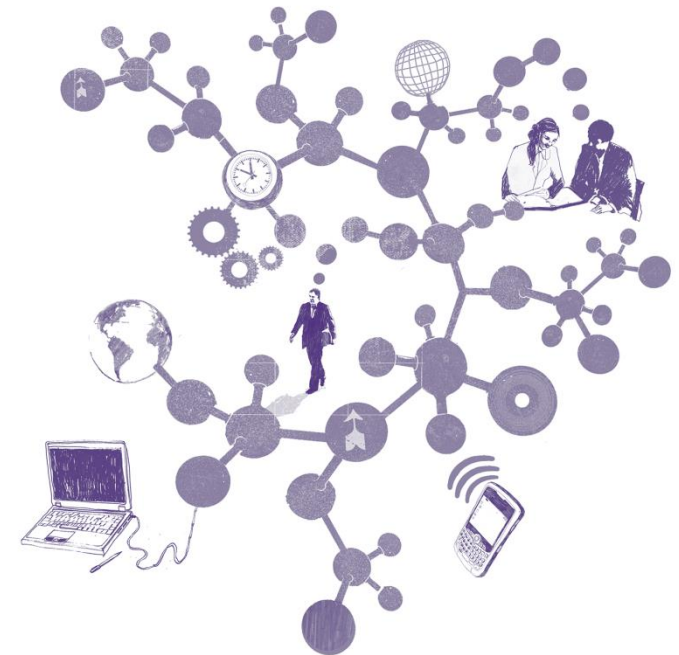
**Year ended 31 March 2016**

October 2016

**Mark Heap**  
Engagement Lead  
T 0161 234 6375  
E [mark.r.heap@uk.gt.com](mailto:mark.r.heap@uk.gt.com)

**Georgia Jones**  
Engagement Manager  
T 0161 214 6383  
E [georgia.s.jones@uk.gt.com](mailto:georgia.s.jones@uk.gt.com)

**John Padfield**  
In-charge Auditor  
T 0161 214 6378  
E [john.padfield@uk.gt.com](mailto:john.padfield@uk.gt.com)



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# Executive summary

## **Purpose of this letter**

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 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its 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 (the Code) 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 28 September 2016.

## **Our 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's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 29 September 2016.

### **Value for money conclusion**

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 29 September 2016.

### **Certificate**

We certified that we had completed the audit of the accounts of Halton Borough Council in accordance with the requirements of the Code on 29 September 2016.

### **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 2016. We will report the results of this work to the Business Efficiency Board in our Annual Certification Letter.

### **Other work completed**

We have also been engaged to provide certification of the Council's Annual Return to the Teachers' Pensions Agency and to undertake compliance audit of a grant funded affordable homes scheme, reporting to the Homes and Communities Agency. This work is yet to be completed. Additionally we have conducted a number of VAT reviews. Further detail of this other work is provided at Appendix A to this Letter.

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# Executive summary

## **Working with the Council**

No significant issues arose during the course of our 2015/16 audit that we have asked management to address for the next financial year.

Looking forward, the Council has agreed to be a pilot site for early audit review work in connection with the new accounting requirements for Highways Network Asset, and we look forward to sharing the insights arising from this with you. For more detail, see pages 11 and 12 of this Letter.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**October 2016**

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# Audit of the accounts

## Our audit approach

### Materiality

In our audit of the Council's accounts, 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 our audit of the Council's accounts to be £6,173,000, which is 1.8% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as disclosure of officers' remuneration, exit packages and related party transactions.

We set a lower threshold of £300,000, above which we reported errors to the Business Efficiency Board in our Audit Findings Report.

### The scope of our audit

Our audit involves obtaining enough 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 Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- 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 narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

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

Our audit approach was 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

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work (continued)

Risks identified in our audit plan	How we responded to the risk
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined the risk of fraud arising from revenue recognition for income can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Halton Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>We consider the risk for revenue recognition relates to occurrence/existence of expenditure and payables.</p> <p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• identified and documented the processes and controls in place around expenditure at the Council</li> <li>• undertaken walkthrough testing of these controls to confirm they operate as we expect</li> <li>• tested a sample of non pay expenditure transactions incurred in the year</li> <li>• tested a sample of new year payments to ensure they were accounted for in the correct year</li> <li>• reviewed unusual significant transactions</li> </ul> <p><b>We did not identify any issues to report</b></p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• Identified and documented the controls in place for journal transactions</li> <li>• undertaken walkthrough testing to confirm the controls operate as we expect</li> <li>• assessed the journals processed in the year, identifying some for further detailed testing</li> <li>• reviewed accounting estimates, judgments and decisions made by management</li> <li>• reviewed unusual significant transactions</li> </ul> <p><b>We did not identify any issues to report</b></p>

# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work (continued)

Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund liability, as reflected in its balance sheet, represents a significant estimate in the accounts and comprises 21% of its total liabilities.</p> <p>The value of the pension fund net liability is estimated by a specialist actuary.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated.</li> <li>• assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation.</li> <li>• gained an understanding of the basis on which the valuation is carried out.</li> <li>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• reviewed the consistency of the pension fund liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul> <p><b>We did not identify any issues to report</b></p>
<p><b>Valuation of property plant and equipment</b></p> <p>The Council's property, plant and equipment represents 63% of its total assets. The value of land and buildings is estimated by property valuation experts.</p> <p>The Council revalues these assets on a rolling basis.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• reviewed whether the experts used by the Council were sufficiently knowledgeable and independent for us to rely on their work</li> <li>• reviewed the Council's instructions to its valuer and the information on the assets it provided</li> <li>• reviewed the valuer's report to understand the valuation method used and any key assumptions.</li> <li>• discussed with management the key assumptions they made about the basis of valuation, to ensure these were appropriate.</li> <li>• checked that the valuation had been correctly reflected in the Council's asset register.</li> <li>• evaluated the assumptions made by management regarding those assets not revalued in the year, and considered the basis upon which management is satisfied that the carrying value of these assets is not materially different to current value</li> </ul> <p><b>We did not identify any issues to report</b></p>

# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work (continued)

Risks identified in our audit plan	How we responded to the risk
<p><b>Operating expenses</b></p> <p>Creditors may be understated or not recorded in the correct period (Operating expenses understated)</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• identified and documented the processes and controls in place around operating expenditure at the Council</li> <li>• walked through a sample item to confirm our understanding</li> <li>• tested a sample of non-pay expenditure</li> <li>• reviewed the reconciliation of accounts payable systems to general ledger and financial statements</li> <li>• reviewed the accruals process and tested a sample of manual accruals and creditor balances</li> <li>• tested a sample of payments around the year-end</li> <li>• reviewed and tested other items of expenditure and disclosures including Minimum Revenue Provision (MRP) and members' allowances.</li> </ul> <p><b>We did not identify any issues to report</b></p>
<p><b>Employee remuneration</b></p> <p>Employee remuneration accruals may be understated (Remuneration expenses not correct)</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• identified and documented the processes and controls in place around employee remuneration at the Council</li> <li>• walked through a sample item to confirm our understanding</li> <li>• tested a sample of payroll transactions</li> <li>• reviewed the reconciliation of payroll data to general ledger and financial statements</li> <li>• performed an analytical review of payroll costs for the year</li> <li>• tested senior officer remuneration disclosures</li> <li>• reviewed and tested other pay disclosures including exit packages note.</li> </ul> <p><b>We did not identify any issues to report</b></p>



# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work (continued)

Risks identified in our audit plan	How we responded to the risk
<p><b>Welfare Benefits</b></p> <p>Welfare benefit expenditure may be improperly computed</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"><li>• identified and documented the processes and controls in place around welfare benefit payments at the Council</li><li>• walked through a sample item to confirm our understanding</li><li>• tested claimant eligibility for a sample of welfare benefit payments</li><li>• reviewed the reconciliation between Northgate welfare benefits system, the general ledger and the financial statements and supporting notes</li><li>• tested the Housing Benefit Subsidy Claim using the Audit Commission HB COUNT approach.</li></ul> <p><b>We did not identify any issues to report.</b></p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 29 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, 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 of the accounts of the Council to the Business Efficiency Board on 28 September 2016. Whilst a number of adjustments were made to the accounts as a result of the audit process, no significant issues arose that we have asked Council management to address for the next financial year.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

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# Value for Money conclusion

## **Background**

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 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 in table 2 overleaf.

## **Overall VfM 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 2016.

# Value for Money

**Table 2: Value for money risks**

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

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# Working with the Council

## Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

**An effective audit** – we delivered the accounts audit within the 30 September deadline and in line with our agreed approach. Our audit team are knowledgeable and experienced in your financial accounts and systems. We worked with you to successfully deliver efficiencies in approach, exchanging information to good effect in a new shared electronic workspace.

**Assurance over your financial processes** – during the year we reviewed your financial systems and processes including employee remuneration, non- pay expenditure and property plant and equipment.

**Understanding your operational health** – through the value for money conclusion we provided you with assurance on your operational effectiveness.

**Sharing our insight** – we provided regular Business Efficiency Board updates covering best practice. Areas we covered included developments in the Local Government Pension Scheme, and issues of financial health and governance highlighted in our national report 'Reforging Local Government'.

We also shared with your finance team our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

**Supporting development** – we worked with officers in support of their initiative to declutter and streamline the content of the 2015/16 Financial Statements.

**Providing information** – We provided you with a high level overview of Halton's economy, society and environment using our Place Analytics platform.

**Support outside of the audit** – our tax team provided VAT advice to you in respect of a number of operational schemes including Sci-Tech Daresbury and Runcorn Hill Park Café.

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# Working with the Council

## **Working with you in 2016/17 - Highways Network Asset**

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may therefore have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have been working with the Council on the accounting, financial reporting and audit assurance implications arising from these changes. We have issued two Client Briefings which we have shared with senior members of the finance team. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

This significant accounting development is likely to be a significant risk for our 2016/17 audit, so we have already had some preliminary discussions with the Council to assess the progress it is making in this respect. We are pleased that officers have expressed interest in the Council being a pilot site for early HNA audit review work in 16/17 and, through this initiative, we should arrive at an informed early view of the Council's preparedness in this area.

The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

# Appendix A: Reports issued and fees

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

## Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	105,294	105,294	140,392
Housing Benefit Grant Certification	6,828	TBC	10,740
<b>Total fees (excluding VAT)</b>	<b>112,122</b>	<b>TBC</b>	<b>151,132</b>

## Reports issued

Report	Date issued
Audit Plan	June 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• Certification of annual Teachers' Pensions Return *	3,750
• Compliance Audit, Homes and Communities Agency**	TBC
• Certification of Mersey Gateway and Silver Jubilee Bridge grant claim **	TBC
<b>Non-audit services</b>	
• VAT reviews	10,375

\* Teacher's Pension grant claim – fee agreed, work in progress.

\*\* This work is anticipated, but the work programme and fee is yet to be agreed.



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