

# The Annual Audit Letter for Halton Borough Council

---

**Year ended 31 March 2017**

October 2017

**Mark Heap**

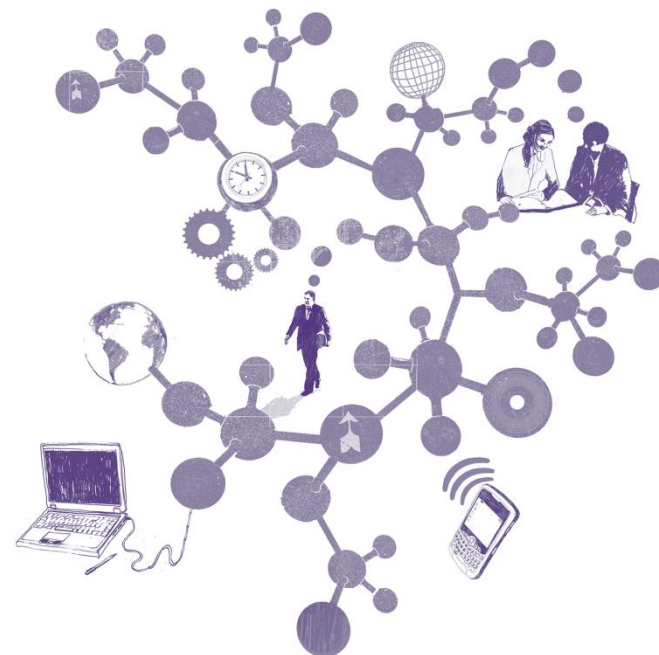
Director  
T 0161 234 6375  
E [mark.r.heap@uk.gt.com](mailto:mark.r.heap@uk.gt.com)

**Georgia Jones**

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

**Patrick McCloskey**  
Executive

T 0151 224 7200  
E [patrick.j.mccloskey@uk.gt.com](mailto:patrick.j.mccloskey@uk.gt.com)



---

# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	3
2. Audit of the accounts	4
3. Value for Money conclusion	10
<b>Appendices</b>	
A Reports issued and fees	

---

# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Halton Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 27 September 2017.

## **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 28 September 2017.

### **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 2017. We reflected this in our audit opinion on 28 September 2017.

### **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 28 September 2017.

### **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 2017. We will report the results of this work to the Business Efficiency Board in our Annual Certification Letter.

## **Working with the Council**

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 2017**

---

# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 £6.902 million, which is 2% 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 senior officer remuneration and related party transactions.

We set a lower threshold of £250,000, 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 the Operational Director – Finance 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 that they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave 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.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>The expenditure cycle includes fraudulent transactions</b> Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• identified and documented the processes and controls in place around expenditure at the Council</li> <li>• tested journal entries, control environment review and walkthrough</li> <li>• tested non-pay expenditure as set out within 'Operating Expenses' on page 6</li> <li>• reviewed unusual significant transactions</li> </ul>	<p>Our audit work has not identified any significant issues in respect of expenditure recognition.</p>
<p><b>Valuation of pension fund net liability</b> The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</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. We also assessed whether these controls were implemented as expected and whether they were 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. We also 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 asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>Our audit work has not identified any issues in respect of the valuation of the pension liability.</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.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Operating Expenses</b> Year end creditors and accruals are understated or not recorded in the correct period.</p>	<p>As part of our audit work we:</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>• completed compliance testing of key controls within the system</li> <li>• completed substantive testing of a sample of non-pay expenditure</li> <li>• reconciled the accounts payable system to financial ledger and financial statements</li> <li>• reviewed the accruals process and completed substantive testing of a sample of manual accruals and creditor balances</li> <li>• sample tested payments around the year end</li> <li>• reviewed and tested other items and disclosures including Minimum Revenue Provision (MRP) and members' allowances</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified</p>
<p><b>Employee Remuneration</b> Employee remuneration accruals are understated</p>	<p>As part of our audit work we:</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>• completed compliance testing of key controls within the system</li> <li>• completed substantive testing of a sample of non-pay expenditure</li> <li>• reconciled payroll data to financial ledger and financial statements</li> <li>• completed a substantive analytical review of payroll costs for the year</li> <li>• completed substantive testing of senior officer remuneration disclosures</li> <li>• reviewed and tested other pay disclosures including exit packages notes</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</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.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of property, plant and equipment</b> The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"><li>• reviewed management's processes and assumptions for calculation of the estimate</li><li>• reviewed the competence, objectivity and expertise of any management experts used</li><li>• reviewed the instructions issued to valuation experts and the scope of their work</li><li>• discussed with the valuer the basis on which the valuation is carried out and challenge of the key assumptions</li><li>• reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding</li><li>• tested revaluations made during the year to ensure they are input correctly into the Council's asset register</li><li>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied itself that these are not materially different to current value</li></ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</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.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Changes to the presentation of local authority financial statements</b></p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>documented and evaluated the process for recording the required financial reporting changes to the 2016/17 financial statements</li> <li>reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure they were in line with the Council's internal reporting structure</li> <li>reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)</li> <li>tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES</li> <li>tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger.</li> <li>tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements</li> <li>reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>



---

# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 28 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during 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 and Efficiency Board on 28 September 2017.

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

We are 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.

We did not need to exercise these additional statutory duties.

---

# 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 2016 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 the table 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 2017.

# Value for Money

**Table: Value for money risks**

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

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and other audit related services

## Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	105,294	105,294	105,294
Housing Benefit Grant Certification	8,055	8,055	6,828
<b>Total fees (excluding VAT)</b>	<b>113,349</b>	<b>113,349</b>	<b>112,122</b>

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

## Reports issued

Report	Date issued
Audit Plan	April 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• Department for Transport grant – Mersey Gateway	<b>2,500</b>
• Teachers Pension	<b>TBC</b>

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

# Reports issued and fees continued

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

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



© 2017 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

**[grant-thornton.co.uk](http://grant-thornton.co.uk)**