

# Audit Findings

*Year ending 31 March 2018*

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West Lancashire Borough Council

24 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



# Contents



Your key Grant Thornton team members are:

**Andy Smith**

Engagement Lead

T: 0161 953 6472

E: [andrew.j.smith@uk.gt.com](mailto:andrew.j.smith@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)

**Lucinda Highfield**

In-charge Auditor

T: 0151 224 7238

E: [lucinda.m.highfield@uk.gt.com](mailto:lucinda.m.highfield@uk.gt.com)

| Section                    | Page |
|----------------------------|------|
| 1. Headlines               | 3    |
| 2. Financial statements    | 4    |
| 3. Value for money         | 11   |
| 4. Independence and ethics | 14   |

## Appendices

- A. Action Plan
- B. Audit adjustments
- C. Fees
- D. Draft audit report

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 West Lancashire Borough Council ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2018 for those charged with governance.

|                                     |  |   |
|-------------------------------------|--|---|
| <b>Financial Statements</b>         | <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"> <li>the Authority's financial statements give a true and fair view of the Authority's financial position and Authority's expenditure and income for the year; and</li> <li>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.</li> </ul> <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 was carried out on site during June and July. Our findings are summarised on the following pages. Subject to the completion of the work, we have not identified any adjustments to the financial statements that impact on net expenditure.</p> <p>Subject to outstanding information being provided and queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 24 July 2018, as detailed in Appendix D. These outstanding items include:</p> <ul style="list-style-type: none"> <li>review of the treatment of pension contribution prepayment</li> <li>confirmation of the basis of the provision for NNDR appeals</li> <li>work on the valuation of property, plant and equipment</li> <li>receipt of management representation letter; and</li> <li>review of the final set of financial statements.</li> </ul> <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 our knowledge of your organisation and with the financial statements we have audited.</p> |
| <b>Value for Money arrangements</b> | <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"> <li>the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')</li> </ul>   | <p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that West Lancashire 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, as detailed in Appendix D. Our findings are summarised on pages 11 to 13.</p>   |
| <b>Statutory duties</b>             | <p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>certify the closure of the audit</li> </ul>   | <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 and expect to be able to certify the completion of the audit when we give our audit opinion.</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 Audit and Governance Committee meeting on 24 July 2018, as detailed in Appendix D. These outstanding items include:

- review of the treatment of pension contribution prepayment
- confirmation of the basis of the provision for NNDR appeals
- work on the valuation of property, plant and equipment
- receipt of management representation letter; and
- review of the final set of financial statements.

## 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 remains the same as reported in our audit plan.

We detail in the table below our assessment of materiality for West Lancashire Borough Council.

|  | Authority Amount (£) | Qualitative factors considered   |
|--|----------------------|--|
| Materiality for the financial statements   | £1.449m              | This equates to 2% of your gross expenditure in 2016/17, which we believe is the most appropriate benchmark to use.  |
| Performance materiality  | £1.086m              | 75% of materiality based on the historic quality of the draft financial statements, the quality of financial systems and processes and the nature of the Council's expenditure and income streams. |
| Trivial matters  | £72k                 | 5% of materiality for the financial statements   |
| Materiality for specific transactions, balances or disclosures – senior manager remuneration | £11,183              | 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. |

# Significant audit risks

| Risks identified in our Audit Plan   | Commentary  |
|--|---|
| <p><b>1</b> <b>Improper revenue recognition</b></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"> <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 West Lancashire Borough Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore, we do not consider this to be a significant risk for West Lancashire Borough Council and we have rebutted it.</p> |
| <p><b>2</b> <b>Management override of controls</b></p> <p>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.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>  | <p>We have:</p> <ul style="list-style-type: none"> <li>• gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness</li> <li>• obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness</li> <li>• evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul> <p>Our audit work has not identified any issues in respect of management override of controls.</p>   |

# Significant audit risks

## Risks identified in our Audit Plan

## Commentary

3

### Valuation of pension 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:

- identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assess whether these controls were implemented as expected and whether they were 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 was carried out
- undertaken 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.

At the time of writing we are reviewing the treatment of the prepayment of pension contributions.

Our work has not identified any other significant issues.

4

### Valuation of plant, property 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:

- 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.

We identified that there is no annual reconciliation between the information that the Estates section hold and the Fixed Asset Register held by the finance section. There is a risk that the two sources of information may have inconsistencies that would only be identified in the five year revaluation exercise. Reconciliations should be undertaken annually.

At the time of writing work is ongoing in this area.

# Reasonably possible audit risks

## Risks identified in our Audit Plan

## Commentary

5

### Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage (58%) 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:

- 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

Our work has not identified any significant issues.

6

### Payroll expenses

Payroll expenditure represents a sizeable percentage (16%) 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:




- 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 were 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

Our work has not identified any significant issues.

# Accounting policies

| Accounting area                 | Summary of policy   | Comments  | Assessment  |
|---------------------------------|---|---|---|
| <b>Revenue recognition</b>      | Revenue due from customers is recognised as income at the date the goods or services are provided and where it is probable that the income will be received.  | <ul style="list-style-type: none"> <li>The Council's accounting policy is in line with the requirements of the CIPFA code and is adequately disclosed in the accounts.</li> <li>Our testing of income, grants income and debtors confirmed that the Council is recognising income in line with its accounting policy.</li> </ul>  | <br><b>Green</b>   |
| <b>Judgements and estimates</b> | <p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>Useful life of Property, Plant and Equipment (PPE)</li> <li>Revaluations</li> <li>Impairments</li> <li>Accruals</li> <li>Valuation of pension fund net liability</li> <li>Provision for National Non Domestic Rates (NDR) appeals</li> <li>Pension liabilities</li> </ul> | <p>We have:</p> <ul style="list-style-type: none"> <li>reviewed the estimates and judgements made in the accounts as part of our work with no matters arising</li> <li>reviewed/sample tested valuations undertaken in the year to confirm they are appropriately included in the statement of accounts</li> <li>reviewed the calculation of your provision for business rate appeals</li> <li>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.</li> </ul> <p>We have not identified any significant issues.</p> | <br><b>Green</b>   |
| <b>Other critical policies</b>  | We have reviewed the Council's policies against the requirements of the CIPFA Code.   | The Council's accounting policies are appropriate and consistent with previous years.   | <br><b>Green</b> |

## 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 <b>Matters in relation to fraud</b>                | <ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul> |
| ② <b>Matters in relation to related parties</b>      | <ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed</li> </ul>  |
| ③ <b>Matters in relation to laws and regulations</b> | <ul style="list-style-type: none"> <li>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.</li> </ul>   |
| ④ <b>Written representations</b>                     | <ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>   |
| ⑤ <b>Confirmation requests from third parties</b>    | <ul style="list-style-type: none"> <li>We have previously requested from management permission to send confirmation requests to your bank and those bodies with which you hold investments.</li> <li>We have received all requested external confirmations.</li> </ul>                         |
| ⑥ <b>Disclosures</b>                                 | <ul style="list-style-type: none"> <li>We have identified some disclosure issues which are detailed later in this report.</li> </ul>   |

## 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  |
|--|---|
| ① <b>Other information</b>                                     | <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. We plan to issue an unqualified opinion in this respect</p> |
| ② <b>Matters on which we report by exception</b>               | <p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters</p>    |
| ③ <b>Specified procedures for Whole of Government Accounts</b> | <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 where Council's exceed the NAO threshold.</p> <p>This work is not required as the Council does not exceed the threshold.</p>  |
| ④ <b>Certification of the closure of the audit</b>             | <p>We intend to certify the closure of the 2017/18 audit of West Lancashire Borough Council in the audit opinion.</p>   |

# Value for Money

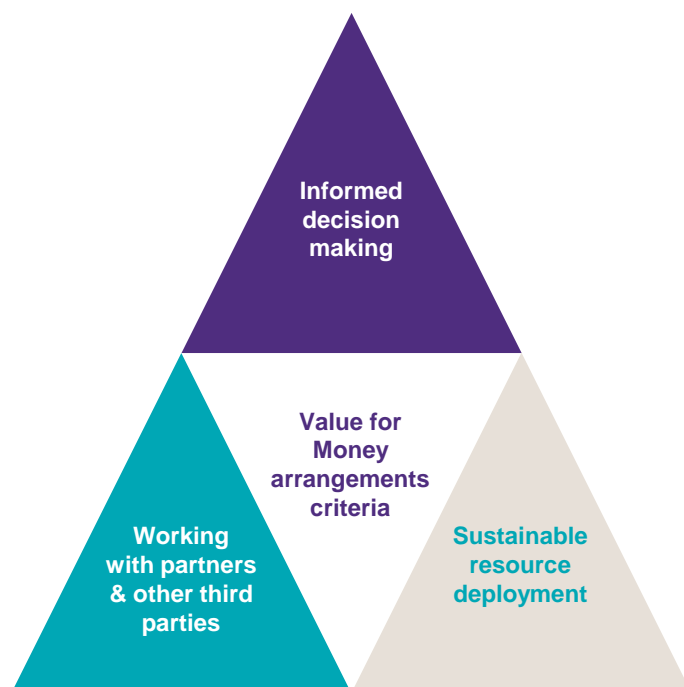
## Background to our VFM approach

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 Authority 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 February 2018 and identified a number of significant risks 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 February 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 risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for Money

## Our work

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

We have focused our work on the significant risks that we identified in the Authority'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 13.

## Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

*“The Authority 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. We have not identified any recommendation for improvement.

## 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.

| 1 | Significant risk   | Findings  | Conclusion  |
|---|--|---|---|
|   | <b>Financial position and sustainability</b>   | <p>The financial position of the Authority is becoming increasingly challenging however the Authority continues to manage this well. In 2017/18, the Authority delivered a favourable variance of £218k on the GRA and a favourable variance of £824k on the HRA budget.</p> <p>The Authority has monitored performance against budget and achievement of planned savings through the year enabling it to meet targets and deliver financial balance for 2017/18.</p> <p>The Authority originally forecast a budget gap of £1.925m for 2018/19. Through the policy options process some savings were identified to bridge this gap. Additional resource was identified from Authority reserves in order to fully close the gap and enable a balanced budget to be set for 2018/19. The Authority continues to look for ways to reduce costs and make the most of financial opportunities.</p> <p>The Medium Term Financial Forecast identified budget gaps of £590k for 2019/20 and £210k for 2020/21. The Authority is undertaking a Sustainable Organisation Review aimed at delivering key Authority objectives, maintaining service provision and securing a balanced budget position. Looking forward, funding future budget gaps from reserves is unlikely to be sustainable and the Authority will need to focus on agreeing a programme of funding in order to deliver their vision for a sustainable organisation and may need to make difficult decisions in order to achieve this.</p> | <p>We have concluded that the Authority is managing the risk sufficiently and that the Authority has proper financial management arrangements in place.</p> <p>The Authority will need to continue to monitor spending and the achievement of savings closely through the coming year to ensure budgeted spending is met.</p> <p>The Authority need to ensure future funding decisions are sustainable.</p> |
|   | <p>The Authority does not have a history of financial difficulty but the position is beginning to become more challenging.</p> <p>At the mid-year review budget performance, the Authority was forecasting a favourable variance on the General Revenue Account (GRA) of £90k and a favourable variance on the Housing Revenue Account (HRA) of £875k.</p> <p>In July, the Authority identified a forecast budget gap of £1.925m for 2018/19. The Authority has identified around £1m of savings for 2018/19 via the policy options process and are planning to support the remainder of the budget gap via one off use of reserves and any favourable variance from 2017/18. The Authority continues to face a challenging financial position going forward with a budget gap of around £0.800m over the two year period of 2019/20 to 2020/21.</p> |   |   |

# Independence and ethics

## Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority.


## 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 audit services were identified.




| Service                        | £           | Threats   | Safeguards  |
|--------------------------------|-------------|---|---|
| <b>Audit related</b>           |             |   |   |
| Pooled capital receipts return | 1,750 (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 £1,750 in comparison to the total fee for the audit of £43,746 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 Form   | 11,195      | Self-Interest (because this is a recurring fee) | The level of this fee is set by Public Sector Audit Appointments and the work undertaken follows DWP requirements. 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 £11,195 in comparison to the total fee for the audit of £43,746 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. |

# Action plan

We have identified 1 recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk   | Recommendations   |
|------------|--|---|
| 1          |  We identified that there is no annual reconciliation between the information that the Estates section hold and the Fixed Asset Register held by the finance section. There is a risk that the two sources of information may have inconsistencies that would only be identified in the five year revaluation exercise. | Reconciliations should be undertaken annually<br><b>Management response</b> |

## Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

# 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.

Subject to resolving the review of prepayment of pension contributions, confirmation of the basis of the provision for NNDR appeals and work on the valuation of property, plant and equipment there are no adjusted or no unadjusted misstatements.

## 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?  |
|---|--|---|------------|
| <b>Note 16 - Financial Instruments</b>  | Note 16 is not in the format shown in the Code Guidance note where financial instruments are set out in tabular format. Although the note gives mostly similar information and cross references to other notes such as - debtors and creditors – it should give the figures for all financial instruments within the note. Neither does the note include the interest table which shows any reduction or increase in fair values (for example on PWLB).  | <p>The note should be amended to comply with guidance</p> <p><b>Management response</b></p> <p>The Council has a relatively straightforward set of financial instruments and therefore believe that the disclosures included in the statement enable the reader to obtain a clear understanding of this position while avoiding unnecessary complexity.</p> | <b>No</b>  |
| <b>Note 38 – Contingent Liabilities</b> | <p>Proceedings have been issued by 20 Foundation NHS Trusts against 49 Billing Authorities across the Country. The Claimants claim that they are charities and occupy the relevant hereditaments in respect of which business rates have been paid</p> <p>wholly or mainly for charitable purposes. The Trusts are seeking to recover 80% of business rates going forward. The amount claimed is approximately £860K plus interest and costs (the Borough Council's share of the principal amount for the rates is 40%, in line with the normal arrangements for distributing NNDR income. We would expect this to be disclosed as a contingent liability.</p> | <p>A contingent liability in relation to this should be disclosed in note 38</p> <p><b>Management response</b></p> <p>The financial statements will be amended to include a note in relation to this contingent liability</p>   | <b>Yes</b> |



# 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? |
|---|--|---|-----------|
| <b>Note 39 - Nature and Extent of Risk arising from Financial Instruments</b> | <p>Code Para 7.4.3.7 requires the authority to disclose by class of financial asset:</p> <p>a) an analysis of the age of financial assets that are past due as at the reporting date but not impaired, and</p> <p>b) an analysis of financial assets that are individually determined to be impaired as at the reporting date, including the factors the authority considered in determining that they are impaired.</p> <p>This disclosure is not included.</p> | <p>The note should be amended to comply with guidance</p> <p><b>Management response</b></p> <p>The Council has a relatively straightforward set of financial instruments and therefore believe that the disclosures included in the statement enable the reader to obtain a clear understanding of this position while avoiding unnecessary complexity.</p> | <b>No</b> |

# Audit Adjustments

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2016/17 financial statements.

| Detail  | Comprehensive Income and Expenditure Statement<br>£'000 | Balance Sheet £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting  |
|---|---|----------------------|---------------------------------------|---|
| <p>1 Accounting issue carried forward from 2014-15. The Council has not charged depreciation on its Infrastructure Assets. We estimate the omitted charge to be understated by approximately £30,475 (if for example Infrastructure assets had a Useful Estimated Life (UEL) of 40 years). This is a trivial amount.</p> <p>If we apply a sensitivity analysis of the UEL being different for individual assets and the average UEL being 10 years this gives depreciation understatement of £40,633, and a UEL of 50 years of £24,380. Both amounts are also trivial</p> | 30  | (30)                 | 0                                     | This is an ongoing issue previously reported to the committee. The Council's policy is not to depreciate infrastructure assets as the amounts involved would be classified as trivial. We agree the amount are trivial but we would recommend the policy be reviewed. |
| <b>Overall impact</b>   | <b>30</b>   | <b>(30)</b>          | <b>0</b>                              |   |

## Fees

We confirm below our final fees charged for the audit.

| <b>Audit fees</b>                       | <b>Proposed fee</b> | <b>Final fee</b> |
|---|---------------------|------------------|
| Audit of the authority                  | £43,746             | £43,746          |
| <b>Total audit fees (excluding VAT)</b> | <b>£43,746</b>      | <b>£43,746</b>   |

### Provide details of any variations in final fees from the proposed fee (per the audit plan).

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'.

| <b>Fees for other services</b>   | <b>Fees £</b>      |
|----------------------------------|--------------------|
| Audit related services:          | £1,750 TBC         |
| • Pooled Capital Receipts report |                    |
| • Housing Benefit Subsidy Return | £11,195            |
| <b>Total other audit fees</b>    | <b>£12,945 TBC</b> |

# A: Audit opinion

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

## **Independent auditor's report to the members of West Lancashire Borough Council**

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the financial statements of West Lancashire 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](http://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  
4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB

Date:



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