

Annual Audit Letter

Year ending 31 March 2018

West Lancashire Borough Council

20 August 2018



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Executive Summary

Purpose

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

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 24 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,449,000, which is 2% of the Council's gross revenue expenditure for 2016/17. We reviewed this on receipt of the draft statements for 2017/18 and were satisfied it remained appropriate.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 30 July 2018.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of West Lancashire Borough Council in accordance with the requirements of the Code of Audit Practice.

Respective responsibilities

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

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

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

Audit of the Accounts

Materiality

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

We determined materiality for the audit of the Council's accounts to be £1,449,000. This equates to 2% of your gross expenditure in 2016/17. We reviewed this on receipt of the draft statements for 2017/18 and were satisfied it remained appropriate.

We also set a lower level of specific materiality for senior officer remuneration of £11,183 due to its sensitive nature.

The scope of our audit

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

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

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

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

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

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

Audit of the Accounts

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Improper revenue recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition are very limited• the culture and ethical frameworks of local authorities, including at West Lancashire Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore, we did not consider this to be a significant risk for West Lancashire Borough Council.</p>	<p>Whilst we rebutted this risk, our other work on the Council's income including council tax, non domestic rates, grants and other income did not identify any issues.</p>
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.	<p>We have:</p> <ul style="list-style-type: none">• gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness• obtained a full listing of journal entries, identified and tested any unusual journal entries for appropriateness• evaluated the rationale for any changes in accounting policies or significant unusual transactions.	<p>Our audit work has not identified any issues in respect of management override of controls.</p>

Audit of the Accounts

Significant Audit Risks *(continued)*

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none">• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also 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.	<p>We identified an error in the way the Council had accounted for the prepayment of pension contributions. The Council has paid three years worth of pension contributions in advance. This has been incorrectly treated as a prepayment in the accounts. This is incorrect as there is no likelihood of the Council being able to retrieve this cash and so does not have control over the asset. The net pension liability had not been reduced for the payments made meaning the pension liability was overstated by £2.023m (amount of pension contributions relating to 2018/19 and 2019/20). Debtors were also overstated by £2.023m. Officers amended the accounts to correct these errors.</p> <p>Our work has not identified any other significant issues.</p>

Audit of the Accounts

Significant Audit Risks *(continued)*

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of plant, property and equipment</p> <p>The Council revalues its land and buildings on a 5-yearly basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration..</p>	<p>We have:</p> <ul style="list-style-type: none">• reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work• considered the competence, expertise and objectivity of any management experts used• discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions• reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding• tested revaluations made during the year to ensure they are input correctly into the Council's asset register• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.	<p>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.</p> <p>Our work has not identified any other significant issues.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 30 July 2018.

Preparation of the accounts

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

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit and Governance Committee on 24 July 2018.

We made one recommendation in that an annual reconciliation between the information that the Estates section hold and the Fixed Asset Register held by the finance section be undertaken.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of West Lancashire Borough Council in accordance with the requirements of the Code of Audit Practice. We issued our certificate on the closure of the audit on 30 July 2018.

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 in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

Key findings

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

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

Overall Value for Money conclusion

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

Value for Money conclusion

Key Value for Money risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial position and sustainability <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 £1.5m – £2m over the two year period of 2019/20 to 2020/21.</p>	<p>As part of our audit we:</p> <ul style="list-style-type: none">• reviewed budget monitoring reports and updates to the Medium Term Financial Plan• discussed with officers plans to address future potential budget gaps and how the Council is identifying, managing and monitoring financial risks• reviewed and monitored revenue and capital reports.	<p>The financial position of the 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 £1,411k 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 £1.5m - £2m for 2019/20 and 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>Conclusion</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>

A. Reports issued and fees

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

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

Fees issued	Planned	Actual fees	2016/17 fees
	£	£	£
Statutory Council audit	43,746	43,746	43,746
Housing Benefit Grant Certification	11,195	TBC	10,920
Total fees	54,941	TBC	54,666

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

Fees for non-audit services

Service	Fees £
Audit related services	£1,750 (TBC)
- Audit of Pooled Housing Capital Receipts return	

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

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

