

The Audit Findings for West Lancashire Borough Council

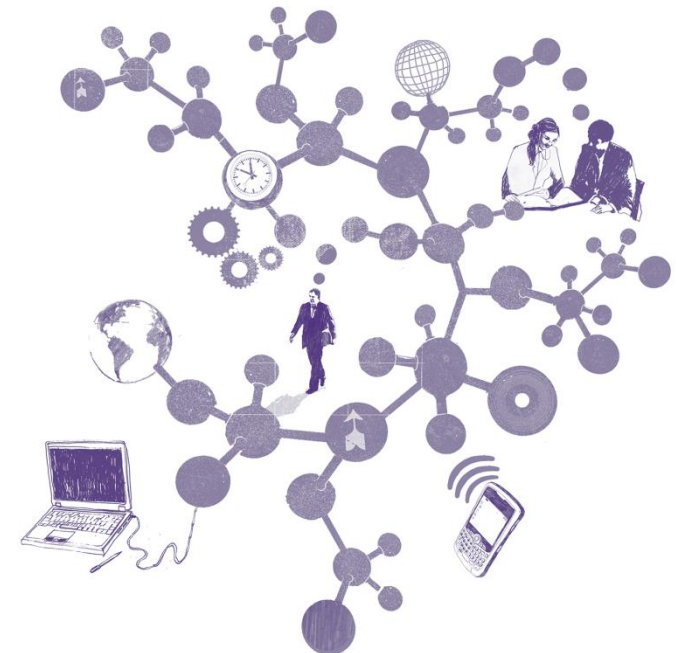
Year ended 31 March 2016

September 2016

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19 September 2016

Dear Members of the Audit and Governance Committee

Audit Findings for West Lancashire Borough Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of West Lancashire Borough Council, the Audit and Governance Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

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 primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Karen Murray
Engagement Lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

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Purpose of this report

This report highlights the key issues affecting the results of West Lancashire Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 22 March 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We did not identify any adjustments affecting the Council's reported financial position (details of our findings are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded Cost of Services net expenditure of £13,002k; there has been no change to this and the audited financial statements show Cost of Services net expenditure of £13,002k.

We recommended a number of adjustments to improve the presentation of the financial statements.

The accounts presented for audit were of good quality and were supported by detailed working papers in line with our agreed requirements.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- 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 information of which we are aware from our audit.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit and Governance Committee.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Borough Treasurer.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Borough Treasurer and the finance team.

Acknowledgement

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.

Grant Thornton UK LLP
September 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

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05. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,726k (being 2% of the gross expenditure budget). This figure was determined at the planning stage using budget figures for 2015/16. We have considered whether this level remained appropriate during the course of the audit and revised our materiality to £1,579k on receipt of the draft accounts (this being 2% of actual gross revenue expenditure in the Comprehensive Income and Expenditure Statement).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £79k.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	We will ensure these disclosures are correctly disclosed subject to rounding and banding classification
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be disclosed	We will ensure this is correctly stated, subject to rounding.
Related Party Transactions	Due to public interest in these disclosures.	We will determine materiality taking account of the size of the third party.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 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>For this Council, we have concluded that the greatest risk of material misstatement relates to the occurrence/existence of expenditure and payables.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at West Lancashire Borough Council, we have determined that the risk of fraud arising from revenue recognition for income and receivables 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 West Lancashire Borough Council, mean that all forms of fraud are seen as unacceptable. <p>We consider the risk for revenue recognition relates to occurrence/existence of expenditure and payables.</p> <p>Work completed:</p> <ul style="list-style-type: none"> • Identification and documentation of the processes and controls in place around expenditure at the Council • Testing of journal entries, control environment review and walkthrough • Testing of non pay expenditure within 'Operating Expenses' • Review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>

Audit findings against significant risks

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In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> Review of accounting estimates, judgments and decisions made by management Testing of journal entries Review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>
3.	<p>Valuation of property, plant and equipment</p> <p>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 current value. This represents a significant estimate by management in the financial statements.</p> <p>The Council is carrying out a valuation of its housing stock during 2015/16. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> Review of management's processes and assumptions for the calculation of the estimate. Review of the competence, expertise and objectivity of any management experts used. Review of the instructions issued to valuation experts and the scope of their work Discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions. Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register. Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value 	<p>Our audit work did not identify any issue in relation to the valuation of property, plant and equipment.</p>

Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
4.	<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<ul style="list-style-type: none"> • Identification of the controls put in place by management to ensure the pension fund liability is not materially misstated. • Assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. • Gained an understanding of the basis on which the valuation is carried out. • Undertook procedures to confirm the reasonableness of the actuarial assumptions made. • 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. 	<p>Our audit work did not identify any issue sin relation to the valuation of the pension fund net liability.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<ul style="list-style-type: none"> • Identification and documentation of the processes and controls in place around operating expenditure at the Council • Walkthrough of a sample item to confirm our understanding • Substantive testing of a sample of non-pay expenditure • Reconciliation of accounts payable systems to general ledger and financial statements • Review of accruals process and substantive testing of a sample of manual accruals and creditor balances • Sample testing of payments around the year-end • Review and testing of other items of expenditure and disclosures including MRP and members' allowances 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<ul style="list-style-type: none"> • Identification and documentation of the processes and controls in place around employee remuneration at the Council • Walkthrough of a sample item to confirm our understanding • Substantive testing of a sample of payroll transactions • Reconciliation of payroll data to general ledger and financial statements • Substantive analytical review of payroll costs for the year • Substantive testing of senior officer remuneration disclosures • Review and testing of other pay disclosures including exit packages notes. 	Our audit work has not identified any significant issues in relation to the risk identified.
Welfare expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> • Identification and documentation of the processes and controls in place around welfare benefit payments at the Council • Walkthrough of a sample item to confirm our understanding • Substantive testing of claimant eligibility for a sample of welfare benefit payments • Reconciliation between Northgate welfare benefits system, the general ledger and the financial statements and supporting notes • Additional substantive testing on selected welfare benefit sample • Testing of Housing Benefit Subsidy Claim using the Audit Commission HB COUNT approach. 	<p>Our identification and documentation of the processes and controls and our walkthrough of the system confirmed that controls were operating as expected. At this point we downgraded our risk assessment of the system and carried out the substantive testing set out aside.</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<p>The Council's accounting policy for income is as follows:</p> <p>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.</p> <p>Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.</p>	<p>The Council's accounting policy is in line with the requirements of the CIPFA code and is adequately disclosed in the accounts.</p> <p>Our testing of income, grants income and debtors confirmed that the Council is recognising income in line with its accounting policy.</p>	<p>Green</p>
<p>Judgements and estimates</p>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> • Useful life of PPE • Revaluations • Valuation of pension fund net liability • Impairments • Accruals • Provision for NDR appeals 	<p>We have:</p> <ul style="list-style-type: none"> • reviewed the estimates and judgements made in the accounts as part of our work with no matters arising. • sample tested valuations undertaken in the year to confirm they are appropriately included in the statement of accounts. • reviewed the calculation of your provision for business rate appeals. We identified there was no amount included for unlodged appeals. This together with confirmation from the Valuation Office Agency of the settlement of one case means that overall the provision is overstated by £184k. Further detail is given about this issue on page 20. • 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. 	<p>Amber</p>

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Borough Treasurer s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	Green
Other accounting policies		<p>We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice.</p> <p>We identified that there was no accounting policy in relation to fair value. This is a new requirement for 2015/16 and the accounts have now been amended to include this.</p> <p>The Council's remaining accounting policies are appropriate and consistent with previous years.</p>	Amber

Assessment

Red Marginal accounting policy which could potentially attract attention from regulators

Amber Accounting policy appropriate but scope for improved disclosure

Green 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.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any incidents in the period. No other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations. We have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We have previously requested from management permission to send confirmation requests to your bank and those bodies with which you hold investments. We received your bank letter and external confirmation for all but one of your investments. For the one investment where requests were not received we undertook alternative procedures, including agreeing the amounts to records held by the Council.
6.	Disclosures	<ul style="list-style-type: none"> Page 24 sets out the disclosure issues we have identified.

Other communication requirements continued

	Issue	Commentary
7.	Matters on which we report by exception	<p>We have not identified any issues where we would be required to report by exception in the following areas:</p> <ul style="list-style-type: none"> • 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 information of which we are aware from our audit. • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<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. The NAO sets a threshold above which detailed procedures are required. We are not required to undertake any work as the Council does not exceed the threshold.</p>

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses, Property Plant and Equipment and Welfare Benefits as set out above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
2.	Amber	<ul style="list-style-type: none"> The Borough Treasurer has access rights to raise journals. We have tested a sample of these journals raised by the Borough Treasurer and have not identified any issues. However, allowing senior management to raise journals means there is a possible risk of manipulation of the Council's financial position. We understand the Borough Treasurer will review his access rights. 	<ul style="list-style-type: none"> Consider the risks presented by allowing the Borough Treasurer to have access right to post journals.

Assessment

Red Significant deficiency – risk of significant misstatement

Amber Deficiency – risk of inconsequential misstatement

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.

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 We identified that the report used to calculate Housing Benefit overpayments had used incorrect parameters and the figure for overpayments and the bad debt provision for these overpayments were overstated by £119k. Therefore, the debtors figure within Note 18 incorrect. Note 18 has been adjusted to correct this. This has no overall effect on the primary financial statements.	Nil	Nil	Nil
Overall impact	Nil	Nil	Nil

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
<p>1 The accounts include a provision for the potential cost of NNDR appeals. Our review of the provision identified that it did not include an amount for unlodged appeals - that is an estimate of the potential cost of any appeals not yet received. Officers have now calculated this as £229k and the provision is understated by this amount. Since the drafting of the accounts, officers have received confirmation from the Valuation Office Agency (VOA) of the outcome of one of the significant appeals. Officers have applied this result to the current estimated provision and as a result the provision is overstated by £413k. Taking these two items together, the total provision is overstated by £184k. (The Council's share of this in terms of it impacting on the CIES would be 40% i.e. £73.6k).</p>	74	(74)	This items has not been adjusted in the accounts because the provision is overstated rather than understated so results in a more prudent position for the council.

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
<p>2 Accounting issue carried forward from 14-15 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. 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)	The Council's policy is not to depreciate infrastructure assets as the amounts involved would be classified as trivial. However we would recommend the policy be reviewed.

Impact of uncorrected items in the prior year

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1	Disclosure of Depreciation in PPE Note 11a is inconsistent with Codes model financial statements and disclosures as no separate annual depreciation charge is stated. The lines 'Depreciation written out to surplus/deficit on provision of services' and 'Depreciation written out to the revaluation reserve' have been used to document the depreciation charge. Our audit testing in the year confirmed that underlying accounting entries are correct.	Nil	Nil	A detailed examination of this position will take place as part of the process for producing the current year's accounts
2	Note 16 Financial Instruments. Although the note references to various items and other notes in the accounts. Better clarity of presentation for the reader could be achieved if figures were collated within the note as per the model financial statements set out in the Code.	Nil	Nil	The Council has a relatively straightforward set of financial instruments and consequently believe that the disclosures included in the statement enable the reader to obtain a clear understanding of this position while avoiding unnecessary complexity.
3	The Council has not charged depreciation on its Infrastructure Assets. Based on discussions with officers we estimate the omitted charge to approximately £30k.	30	(30)	The Council's policy is not to depreciate infrastructure assets as the amounts involved would be classified as trivial

Misclassifications 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure			New requirements around fair value disclosures are required this year with the implementation of IFRS 13 Fair Value Measurement. We identified there was scope to improve the disclosures in relation to fair value within the financial statements to ensure the accounts are fully compliant with requirements. The accounts have been amended to incorporate key disclosures and further review will be undertaken for the 2016/17 accounts.
2 Disclosure			Accounting issue carried forward from 14-15 The disclosure of Depreciation in PPE Note 11a is inconsistent with the model financial statements and disclosures as set out in the Code because no separate annual depreciation charge is stated. The lines 'Depreciation written out to surplus/deficit on provision of services' and 'Depreciation written out to the revaluation reserve' have been used to document the depreciation charge. Our audit testing in the year confirmed that underlying accounting entries are correct.
3 Disclosure			A small number of other disclosure amendments have been identified and made to the accounts to ensure they fully comply with the requirements of the CIPFA Code of Practice on Local Authority Accounting.
4 Other			We identified a small number of trivial errors which we have discussed with management to ensure they are aware of these and can address them going forward.

Section 3: Value for Money

01. Executive summary

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Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in April 2016 and identified the following significant risks, which we communicated to you in our Audit and Governance Committee Progress and Update Report at the June committee:

The Council has historically managed its finances well and has consistently achieved savings targets. The Council achieved a balanced budget for 2015/16.

The Council did initially have budget gaps in the 2016/17 GRA of £1.571m and the 2016/17 HRA of around £1.4m to fund. Savings have been identified to address these gaps, however, the Council has identified budget gaps in the later years of the Medium Term Financial Strategy of £1.437m in 2017/18, £1.562m in 2018/19, £0.473m in 2019/20.

Addressing this shortfall is dependent on a number of factors and there are still significant savings to be identified in order to be able to meet forecast expenditure levels.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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.

Significant qualitative aspects

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

We have focused our work on the significant risks that we identified in the Council's arrangements.. Our main considerations were:

- a review of the budget outturn for 2015-16 and the consideration of any issue which may impact on council finances in the near future
- a review of the partnerships the council has and is developing in order to continue to deliver services in a tightening financial position
- a review of key documents and discussion of issues with key officers.

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 later in this section.

Overall conclusion

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

- the Council 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 B.

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.

Significant risk	Work to address	Findings and conclusions
<p>Financial Resilience</p> <p>The Council has historically managed its finances well and has consistently achieved savings targets. The Council achieved a balanced budget for 2015/16.</p> <p>The Council did initially have budget gaps in the 2016/17 GRA of £1.571m and the 2016/17 HRA of around £1.4m to fund. Savings have been identified to address these gaps, however, the Council has identified budget gaps in the later years of the Medium Term Financial Strategy of £1.437m in 2017/18, £1.562m in 2018/19, £0.473m in 2019/20.</p> <p>Addressing this shortfall is dependent on a number of factors and there are still significant savings to be identified in order to be able to meet forecast expenditure levels.</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 through discussion with key officers.</p> <p>Review of the council's partnerships through discussion with key officers.</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 £3.472m in total over the next three years. The Council is now working to identify further savings and efficiencies to address the gaps.</p> <p>As in recent years, policy options to meet the savings gap are identified for review and approval by the Council. Where policy options do not impact on front line services these have been considered and approved by the Council. Where proposed options may impact on services the Council consults with the local community.</p> <p>As part of its financial planning, the Council has looked to find innovative solutions to the financial issues faced. An example of this is the project to fit solar panels to council houses. The Council has also sought to identify and put in place a range of partnerships across the local area in order to foster closer working relationships for the benefit of the community. These partnerships include strategic partnerships for example with Lancashire County Council, Liverpool City Region and community partnerships for example Active West Lancashire set up to improve healthy lifestyles and Ageing Well Partnership set up to try and provide greater co-ordination of services for older people. The Council is demonstrating a willingness to explore new and creative ways of working in partnership in order to deliver services in times of increasing financial pressure.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place.</p>

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.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We confirm below our final fees charged for the audit.

Fees

	Proposed fee £	Final fee £
Council audit	43,746	43,746
Grant certification	11,195	TBC
Total audit fees (excluding VAT)	54,941	TBC

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

Grant certification

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'.

Fees for other services

Service	Fees £
Audit related services:	
Pooling of Housing Capital Receipts	TBC

Independence and ethics

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Consider the risks presented by allowing the Borough Treasurer to have access right to post journals.	Medium	Agreed	September 2016
2	The Council has not charged depreciation on its Infrastructure Assets. The Council's policy is not to depreciate infrastructure assets as the amounts involved would be classified as trivial. However we would recommend the policy be reviewed.	Low	This policy will be reviewed for the 2016/17 accounts	March 2017

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST LANCASHIRE BOROUGH COUNCIL

We have audited the financial statements of West Lancashire Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

Respective responsibilities of the Borough Treasurer and auditor

As explained more fully in the Statement of the Borough Treasurer Responsibilities, the Borough Treasurer 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Borough Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority’s arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements to secure 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.

We are required under Section 20(1)(c) of the Act 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.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November

2015, as to whether 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 these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Karen Murray
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Spinningfields
Manchester
M3 3EB

Date to be confirmed (2016)



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