

# The Annual Audit Letter for West Lancashire Borough Council

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**Year ended 31 March 2016**

**October 2016**

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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at West Lancashire Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 27 September 2016.

## **Our responsibilities**

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

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

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

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 27 September 2016.

### **Value for money conclusion**

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 27 September 2016.

### **Certificate**

We certified that we had completed the audit of the accounts of West Lancashire Borough Council in accordance with the requirements of the Code on 27 September 2016.

### **Certification of grants**

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter.

### **Working with the Council**

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

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

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

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

We determined materiality for our audit of the Council's accounts to be £1,579k which is 2% of the Council's gross revenue ,expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as officer remuneration, auditor remuneration and related party transactions.

We set a lower threshold of £79k above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

### **The scope of our audit**

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

This includes assessing whether:

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

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

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

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

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

# Audit of the accounts

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

| Risks identified in our audit plan   | How we responded to the risk   |
|--|--|
| <p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;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"> <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>We consider the risk for revenue recognition relates to occurrence/existence of expenditure and payables.</p> <p>As part of our audit work we have undertaken procedures to:</p> <ul style="list-style-type: none"> <li>• Identify and document the Council's overall control environment</li> <li>• Identify, document and walkthrough the processes and controls in place around expenditure at the Council</li> <li>• Test non pay expenditure within 'Operating Expenses'</li> <li>• Review unusual, significant transactions</li> <li>• Test journal entries.</li> </ul> <p><b>We did not identify any issues to report.</b></p> |
| <p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>  | <p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• Reviewed accounting estimates, judgments and decisions made by management</li> <li>• Tested journal entries</li> <li>• Reviewed unusual significant transactions</li> </ul> <p><b>We did not identify any issues to report</b></p>  |

# Audit of the accounts

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

| Risks identified in our audit plan   | How we responded to the risk   |
|--|--|
| <p><b>Valuation of property, plant and equipment</b><br/>           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 undertook a re-valuation of its housing stock during 2015/16. This represents a significant estimate by management in the financial statements.</p> | <p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• Reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>• Reviewed the competence, expertise and objectivity of any management experts used.</li> <li>• Reviewed the instructions issued to valuation experts and the scope of their work</li> <li>• Discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions.</li> <li>• Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>• Tested revaluations made during the year to ensure they are input correctly into the Council's asset register.</li> <li>• Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value</li> </ul> <p><b>We did not identify any issues to report</b></p> |
| <p><b>Valuation of pension fund net liability</b><br/>           The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements</p>  | <p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• Identified the controls put in place by management to ensure the pension fund liability is not materially misstated.</li> <li>• Assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation.</li> <li>• Gained an understanding of the basis on which the valuation is carried out.</li> <li>• Performed procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul> <p><b>We did not identify any issues to report</b></p>   |

# Audit of the accounts

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

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

# Audit of the accounts

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

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



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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 27 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Governance Committee on 27 September 2016.

In addition to the key audit risks reported above, we identified the following issues/adjustments during our audit that we have asked the Council's management to address for the next financial year:

- consider the risks presented by allowing the Borough Treasurer to have access right to post journals
- 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 recommend this policy be reviewed.

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

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

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

## **Other statutory duties**

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

We did not have to exercise our statutory powers.

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# Value for Money conclusion

## **Background**

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

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

## **Key findings**

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

The key risks we identified and the work we performed are set out in table 2 overleaf.

## **Overall VfM conclusion**

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

# Value for Money

**Table 2: Value for money risks**

| Risk identified   | Work carried out  | Findings and conclusions  |
|---|---|---|
| <p><b>Financial Resilience</b></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. It is important that this continues through the remainder of the year in order to ensure that planned savings are on track and being delivered, or where they are not, this is identified promptly so that appropriate action can be taken to address the risks of slippage.</p> <p>Looking further ahead to 2019/20, the Council continues to forecast that it will face significant financial challenges. The latest update to the Medium Term Financial Strategy predicts a gap of £3.472m in total over the 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 option 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 it's 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. In addition, the Council has sought to identify and put in place a range of partnerships across the local area 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> |

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit. For the certification of claims, this work is not yet completed and final fees will be confirmed in our annual certification letter.

## Fees

|                                     | Planned<br>£  | Actual fees<br>£ | 2014/15 fees<br>£ |
|-------------------------------------|---------------|------------------|-------------------|
| Statutory audit of Council          | 43,746        | 43,746           | 57,428            |
| Housing Benefit Grant Certification | 11,195        | TBC              | 14,450            |
| <b>Total fees (excluding VAT)</b>   | <b>54,941</b> | <b>TBC</b>       | <b>71,878</b>     |

## Fees for other services

| Service  | Fees £     |
|--|------------|
| <b>Audit related services:</b> <ul style="list-style-type: none"><li>• Pooled Housing Capital Receipts</li></ul> | <b>TBC</b> |

## Reports issued

| Report                | Date issued       |
|-----------------------|-------------------|
| Audit Plan            | 22 March 2016     |
| Audit Findings Report | 27 September 2016 |
| Annual Audit Letter   | October 2016      |



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