

The Annual Audit Letter for West Lancashire Borough Council

Year ended 31 March 2017

October 2017

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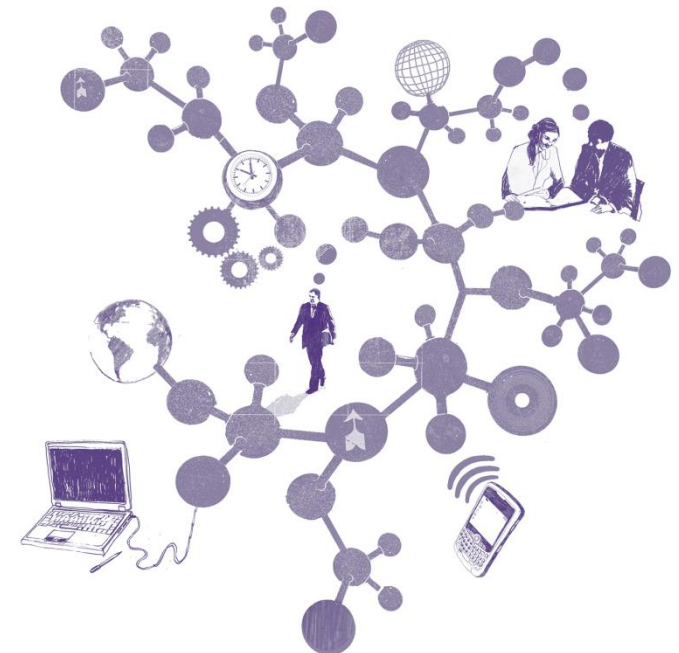
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Contents

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

Executive summary

Purpose of this letter

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

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

We reported the detailed findings from our audit work to the Council's Audit and Governance Committee (as those charged with governance) in our Audit Findings Report on 5 September 2017.

Our responsibilities

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

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 5 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 5 September 2017.

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 5 September 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the 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 2017

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £1.449m, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for senior officer remuneration and related party transactions.

We set a lower threshold of £72k, 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 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 Borough Treasurer 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's and with the accounts included in the Statement of Accounts on which we gave our opinion.

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

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

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

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The expenditure cycle includes fraudulent transactions Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> identified and documented the processes and controls in place around expenditure at the Council and undertaken walkthrough testing to confirm these operated in line with our understanding tested a sample of non pay expenditure as set out within 'Operating Expenses' on page 6 reviewed the accounts to identify any unusual significant transactions 	<p>Our audit work has not identified any significant issues in respect of expenditure recognition.</p>
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We assessed whether these controls were implemented as expected and whether they were 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 was 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 has not identified any issues in respect of the valuation of the pension liability.</p>

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Operating Expenses Year end creditors and accruals are understated or not recorded in the correct period.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • identified and documented the processes and controls in place around operating expenditure at the Council • completed walkthrough testing on a sample item to confirm our understanding • substantively tested a sample of non-pay expenditure • reconciled the accounts payable systems to general ledger and financial statements • reviewed the accruals process and tested a sample of manual accruals and creditor balances • sample tested payments around the year-end to confirm expenditure is charged to the correct year • reviewed and tested other items of expenditure and disclosures including the Minimum Revenue Provision (MRP) and members' allowances. 	<p>Our audit work has not identified any significant issues in relation to the risk identified</p>
<p>Employee Remuneration Employee remuneration accruals are understated</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • identified and documented the processes and controls in place around employee remuneration at the Council • walked through a sample item to confirm controls operate in line with our understanding • tested a sample of payroll transactions • reconciled the payroll data to general ledger and financial statements • performed a trend analysis of payroll costs for the year • tested senior officer remuneration disclosures back to source documents • reviewed and tested other pay disclosures including exit packages notes 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Council carried out a valuation of its housing stock during 2015/16. 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>As part of our audit work we:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate • reviewed of the competence, expertise and objectivity of the valuer as management's expert used for this estimate • reviewed the instructions issued to valuation experts and considered the scope of their work • discussed with the valuer the basis on which the valuation was 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 a sample of revaluations made during the year to ensure they were 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 were not materially different to current value. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Changes to the presentation of local authority financial statements</p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> documented and evaluated the process for recording the required financial reporting changes to the 2016/17 financial statements reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure they were in line with the Council's internal reporting structure reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>The CIPFA Code of Practice on Local Authority Accounting says that the Expenditure and Funding Analysis should be given 'due prominence' in the accounts.</p> <p>The Code also sets out that "An authority will be able to decide for itself taking into account the needs of its users"</p> <p>We would expect this note to be note 1 in the accounts rather than note 27. However, the Borough Treasurer has indicated he is content with the position of the note.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 5 September 2017, in advance of the 30 September 2017 national deadline.

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

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Audit and Governance Committee on 5 September 2017.

Annual Governance Statement and Narrative Report

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

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

Other statutory duties

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

We did not need to exercise these additional statutory duties.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

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

Key findings

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

The key risks we identified and the work we performed are set out in 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 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial outlook</p> <p>The Council does not have a history of financial difficulty but the position is beginning to become more challenging.</p> <p>At the time of our vfm planning, the Council was forecasting a favourable variance on the GRA of £310k and a favourable variance on the HRA of £1m. A budget gap of £1.44m was originally forecast for 2017/18. Savings and efficiencies were identified to address this gap, but the Council continues to face a challenging financial position going forward with a budget gap of around £2m - £2.5m over the two year period of 2018/19 to 2019/20.</p>	<p>We reviewed budget monitoring reports and updates to the Medium Term Financial Forecast.</p> <p>We discussed with officers plans to address future potential budget gaps and how the Council is identifying, managing and monitoring financial risks.</p> <p>We continued to review and monitor revenue and capital reports.</p>	<p>The Council continues to manage its finances well in order to deliver services aligned to the needs of the local community. In terms of overall financial performance the Council achieved a favourable variance of £391k (3%) on the GRA in 2016/17. This was a result of good performance on implementing savings, underspend on employee and running expenses and income exceeding budget in some areas. The Council intends to use most of this variance to support the 2018/19 financial position.</p> <p>The Council also achieved a favourable variance on the HRA of £1.4m (5%). This was the result of reduced staff costs, not using the contingency and more favourable interest rates than forecast.</p> <p>A balanced budget was set for 2017/18 including £1.18m of GRA savings measures which have been identified to help achieve this. The Council continues to look for ways to reduce costs and make the most of financial opportunities. For example green waste charging has been introduced from June with current forecasts of income above the estimated forecast income of £0.5m</p> <p>A revised Medium Term Financial Forecast was taken to Council in July. Budget gaps of £1.9m in 2018/19 rising to £2.7m in 2020/21 have been identified. A number of policy options were presented to Council around income generation, efficiency/better ways of working and service redesign, and some of surplus from 2016/17 - around £310k - will be used to support 2018/19. Early planning around efficiencies have identified around £450k and other options are being reviewed which amount to around £800k.</p> <p>The Council has a good record of identifying savings and is working to achieve those needed for 2017/18, and identify required efficiencies for 2018/19 onwards with a number of options already identified.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</p>

Appendix A: Reports issued and fees

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

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	43,746	43,746	43,746
Housing Benefit Grant Certification	10,920	10,920	11,195
Total fees (excluding VAT)	54,666	54,666	54,941

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

Reports issued

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

Fees for other services

Service	Fees £
Audit related services:	
• Pooled Housing Capital Receipts	TBC

Non- audit services

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

Reports issued and fees continued

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

	Service provided to	Fees	Threat identified	Safeguards
Audit related services	West Lancashire Borough Council Each year we provide the audit for the Pooled Housing Capital Receipts return. In 2015/16 the fee for this work was £1,750. The fee for 2016/17 is still to be agreed.	TBC	No specific threat identified	The fee is of a low amount compared to the overall audit fee of £43,746 so would not impact on our independence as auditors. An Ethical Standards form is completed prior to work commencing to ensure all threats have been identified and considered.
	TOTAL	TBC		

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



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