



The Annual Audit Letter for Trafford Council

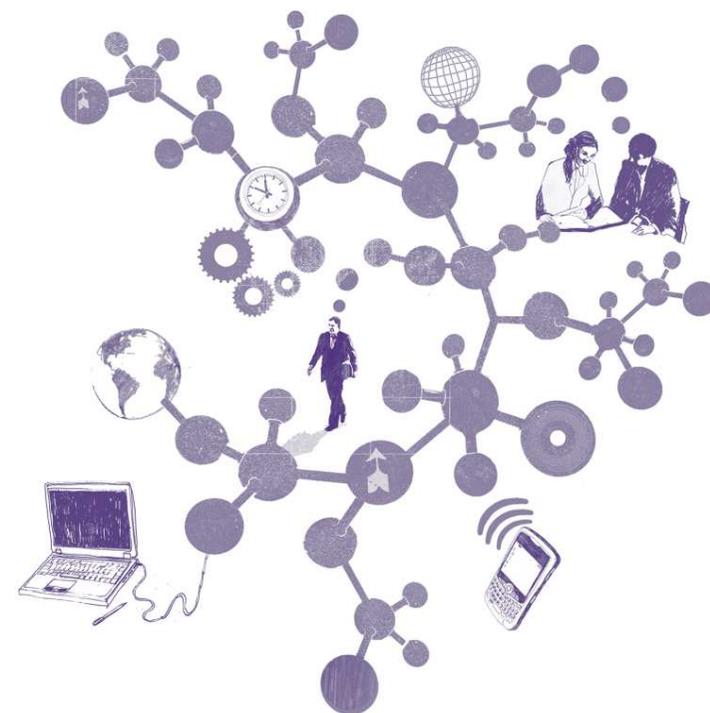
Year ended 31 March 2016

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 Trafford 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 Accounts and Audit Committee as those charged with governance in our Audit Findings Report on 29 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 29 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 29 September 2016.

Whole of government accounts

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 18 October 2016

Certificate

We certified that we had completed the audit of the accounts of Trafford Council in accordance with the requirements of the Code on 18 October 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 Accounts and Audit Committee in our Annual Certification Letter.

Working with the Council

We are really pleased to have worked with you over the past year. We have worked with you by:

Providing an efficient audit – we delivered the accounts audit before the deadline and in line with the timescale we agreed with you. We liaised on technical issues to ensure that appropriate accounting and audit implications are identified.

Sharing our insight – we provided independent external audit commentary and insight in your key issues through senior attendance at every Audit Committee. We have also shared with you our insights on various accounting issues including earlier closure timetables.

Providing training – we provided your teams with training on financial accounts and annual reporting. The courses were attended by members of your finance team.

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

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 £8,258,000, 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 cash and senior officer remuneration.

We set a lower threshold of £413,000, above which we report errors to the Accounts and Audit 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 - Council

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>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>	<p>As part of our audit work we completed:</p> <ul style="list-style-type: none"> • a review of entity controls • an examination and testing of accounting estimates, judgements and decisions made by management • testing of journals entries to include year end adjusting entries • a review of any unusual significant transactions <p>We did not identify any issues to report</p>
<p>Employee remuneration</p> <p>Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • documented and walked through the key controls put in place to ensure they were designed and operating as expected. • substantively tested a sample of staff payroll payments, ensuring that payments are made in accordance with the individual's contract of employment and to confirm that employees exist, are paid correctly and are recorded in the general ledger. • tested the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces to ensure transactions are accurately and completely recorded <p>We did not identify any issues to report.</p>

Audit of the accounts – Council (continued)

Risks identified in our audit plan	How we responded to the risk
<p>Operating expenses</p> <p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p> <p>.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • documented and walked through the key controls over the operating expenses transaction cycle to ensure they were designed and operating as expected • tested the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces • tested payments made after the year-end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts • substantively tested operating expenses including sample testing of expenditure, year end accruals and creditor balances. This is to ensure valid spend and appropriate categorisation within the net cost of services headings in the comprehensive income and expenditure statement. <p>We did not identify any issues to report.</p>
<p>Welfare expenditure</p> <p>Welfare benefit expenditure is misstated</p> <p>.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • documented and walked through the key controls over the welfare expenditure transaction cycle to ensure they were designed and operating as expected • substantively tested of welfare benefits paid in year to ensure these were accurate and reflected eligibility • Verified the reconciliation between the financial ledger and the housing benefits system <p>We did not identify any issues to report</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 29 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 to the Accounts and Audit Committee on 29 September 2016.

Our audit did not identify any material errors or uncertainties in the Council's financial statements. The Chief Finance Officer amended the accounts for the disclosure changes identified during the audit. These were primarily to correct minor errors and improve the presentation of the accounts.

We also identified a number of issues regarding access control and segregation of duties conflicts within the Council's IT system (the SAP system). Management have already addressed some of these and Salford IT Audit on behalf of Trafford Council Audit and Assurance Service have followed up the recommendations raised.

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.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider.

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 identify any issues that required us to apply our statutory powers and duties under the Act.

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.

We identified the Council's future medium term financial position as a key risk and completed the following risk based work as part of our assessment:

- monitored the Council's progress in updating its medium term financial strategy and projected savings and efficiencies requirements
- examined financial and budget reporting to Members
- assessed the out-turn position for 2015/16 and the budget plans from 2016/17 onwards
- met with key officers to discuss key strategic challenges and the Council's proposed response.

In addition we reviewed the project management and risk assurance frameworks established by the Council to establish how it is identifying, managing and monitoring its risks.

The findings against the work we performed are set out in table 2 overleaf.

We were satisfied from completing this work that the Council has proper arrangements to plan and monitor finances effectively to support the delivery of its strategic priorities.

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>Medium term financial position</p> <p>The Council is facing a continued period of austerity. The latest medium term financial outlook reported in February 2016 indicates that the Council will need to find further savings and efficiencies in excess of £30 million for the 3 years to 2019/20 to address its potential gap in funding. This is in addition to the £22.6 million funding gap falling in the 2016/17 financial period.</p>	<p>We assessed the out-turn position for 2015/16 and examined the Council's arrangements for putting together and agreeing its budget plans from 2016/17 onwards. This included considering savings and efficiency plans, mitigating actions and contingencies.</p>	<p>The Council achieved a £5.6 million underspend on revenue activity and has a general fund reserve balance of £7.89 million at 31 March 2016. Total savings of £21.8m were achieved against a target of £21.6 million. The Council agreed a balanced 2016/17 budget in February 2016 which requires it to meet a budget gap of £22.6 million with a combination of efficiencies and income and policy choices. The Medium Term Financial Outlook requires the Council to make savings and efficiencies in excess of £30 million over the three years from 2017/18 to 2019/20. A significant proportion of this falls in 2017/18 and is currently estimated at £18 million. Whilst the challenge is significant the Council has appropriate arrangements in place to identify and manage its financial position. The Council has implemented an ambitious programme to redesign and transform all areas of the Council to help deliver the future savings required. Its Reshaping Trafford Council Programme will deliver a new organisational model from 2017/18 by using a mix of different delivery models. The Council's track record to date provides a good level of confidence that it will be well placed to meet these challenges</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Working together, we have contributed to:

An efficient audit – we delivered the accounts audit before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that generates early discussion on key issues to deliver a smooth year end audit.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non- pay expenditure and welfare benefits. We liaised with your Internal Audit team to examine some areas of IT weakness and to agree areas for improvement.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We tracked your financial budget position, medium term planning arrangements and strategic partnership working and considered this as part of our value for money assessment.

Sharing our insight – we provided regular audit committee updates covering best practice. Areas we covered included **Innovation in public financial management, Knowing the Ropes – Audit Committee; Effectiveness Review, Making devolution work, Reforging local government.** We have also shared with you our insights on advanced closure of local authority accounts, in our publication "**Transforming the financial reporting of local authority accounts**" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Technical dialogue – we have been involved in early discussions on a number of developments to ensure that appropriate accounting and audit implications are identified

Providing training – we provided your teams with training on financial accounts and annual reporting. The courses were attended by members of your finance team.

Working with the Council

Working with you in 2016/17 Highways Network Asset

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may therefore have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have been working with the Council on the accounting, financial reporting and audit assurance implications arising from these changes. We have issued two Client Briefings which we have shared with you. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

This significant accounting development is likely to be a significant risk for our 2016/17 audit, so we will hold early discussions with the Council to assess the progress it is making in this respect.

Working with the Council

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues.

The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

We will also continue to work with you and support you over the next financial year in other areas:

Locally our focus will be on:

- Accounts developments - early examination and discussion on any emerging issues during the year, including preliminary review of your group accounting restatement of the 2015/16 comparatives for the 2016/17 accounts
- An efficient audit – continuing to deliver an efficient audit
- Improved financial processes – we will follow up actions taken on areas of IT weakness identified within your SAP system and examine controls in other key systems
- Understanding your operational health – we will focus our value for money conclusion work on your operational health and strategic partnership working

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

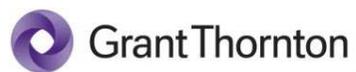
	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	118,192	118,192	157,589
Housing Benefit Grant Certification	15,963	15,963	15,330
Total fees (excluding VAT)	134,155	134,155	172,919

Fees for other services

Service	Fees £
Audit related services:	
• Teachers Pension Return	4,200

Reports issued

Report	Date issued
Audit Plan	February 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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