



TRAFFORD
COUNCIL

**AGENDA PAPERS MARKED 'TO FOLLOW' FOR
ACCOUNTS AND AUDIT COMMITTEE**

Date: Monday, 30 July 2018

Time: 6.30 p.m.

**Place: Committee Rooms 2 and 3, Trafford Town Hall,
Talbot Road, Stretford, M32 0TH**

A G E N D A	P A R T I	Pages
6. EXTERNAL AUDIT 2017/18 FINDINGS REPORT		
To receive a report from the Council's External Auditor, Grant Thornton UK.		1 - 28

JANE LE FEVRE

Director of Legal and Democratic Services

Membership of the Committee

Councillors B. Brotherton (Chairman), E. Patel (Vice-Chairman), C. Boyes, J. Dillon, P. Lally, A. Mitchell and J. Slater.

Further Information

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This agenda was issued on **Wednesday, 25 July 2018** by the Legal and Democratic Services Section, Trafford Council, Trafford Town Hall, Talbot Road, Stretford M32 0TH

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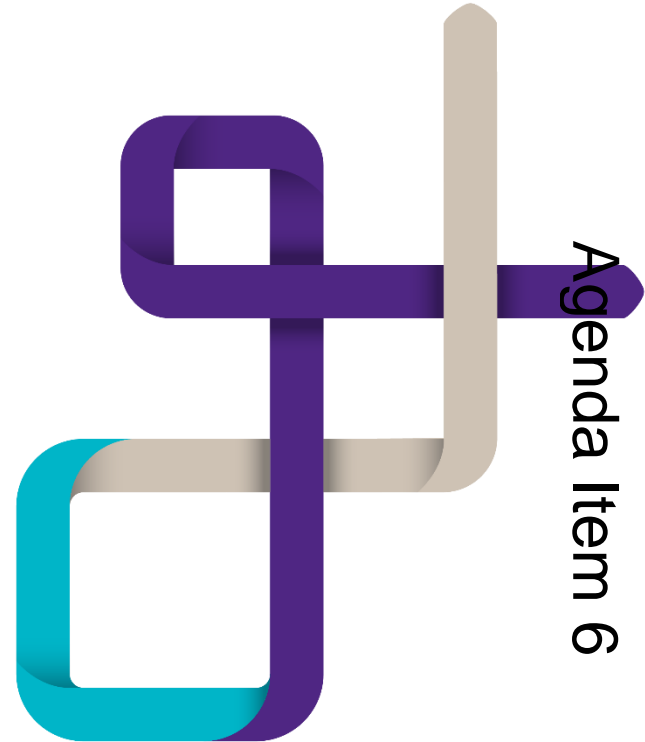
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Audit Findings

Year ending 31 March 2018

Trafford Council
25 July 2018

Page 1



Contents



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Page 2

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Section

1. Headlines
2. Financial statements
3. Value for money
4. Independence and ethics

Page

- 3
- 5
- 16
- 20

Appendices

- A. Audit adjustments
- B. Fees
- C. Audit Opinion

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 for the purpose of expressing our opinion on the financial statements. 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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Headlines

This table summarises the key issues arising from the statutory audit of Trafford Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements		
	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the group and Council's financial statements give a true and fair view of the group's and Council's financial position and of the group and Council's expenditure and income for the year, andhave been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	<p>Our audit work was carried out on site during June and July. Our findings are summarised on the following pages.</p> <p>So far we have not identified any adjustments affecting the reported financial position for the year ended 31 March 2018 with the draft financial statements setting out recorded net expenditure on cost of services of the Council £152.108 million and £152.152 million for the Group. However, our audit is not yet complete as we are currently considering the implications of the Council's treatment of an element of the loans which it holds.</p> <p>The key messages arising from our audit of the Council's financial statements are:</p> <ul style="list-style-type: none">Our audit is not complete at the time of writing as we are considering the implications for our opinion of the Council's treatment of an element of its "LOBO" loan holdings in the financial statements of the CouncilSubject to the issue identified above, the draft financial statements were again prepared to a good standard and in line with the revised and earlier deadline of 1 June 2018.The statements were supported by prompt provision of good quality working papers in accordance with the agreed timetable.
	<p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>At the time of writing this report we have not identified any material errors or uncertainties. However, our audit is ongoing and we are still dealing with some outstanding items, including:</p> <ul style="list-style-type: none">resolution of an audit issue in relation to "LOBO" loans (note we will be unable to conclude our audit until this issue is resolved)completion of testing on a small number of account balances and clearance of outstanding queriesobtaining and reviewing the management representation letterreviewing changes made to the narrative reportreview of the final set of financial statements; andupdating our post balance sheet events review, to the date of signing the opinion. <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement, (AGS) are consistent with our knowledge of your organisation and with the financial statements we have audited. We are continuing to review the contents of the narrative report. Depending upon the resolution of the LOBO issue, it may be necessary to reconsider the contents of the AGS.</p>

Headlines

This table summarises the key issues arising from the statutory audit of Trafford Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: <ul style="list-style-type: none">the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	We are unable to give our value for money conclusion at this stage. Our work cannot be concluded due to the outstanding issue regarding the Council's LOBO loan accounting. Our conclusions will be updated following resolution of the LOBO issue. There are no other outstanding matters that we are considering in the context of the VFM conclusion.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: <ul style="list-style-type: none">report to you if we have applied any of the additional powers and duties ascribed to us under the Act; andcertify the closure of the audit	Subject to the satisfactory resolution of the outstanding issue in respect of LOBO loans, we have not exercised any of our additional statutory powers or duties. We do not expect to be able to issue our opinion or certify the conclusion of the audit yet until: <ul style="list-style-type: none">the resolution of the outstanding issue in respect of LOBO loans and completion of our work in this respectwe have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement.

Acknowledgements

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.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

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

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the component of the group based on a measure of materiality considering its percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response.

- From this evaluation we determined that an analytical review response was required for Trafford Leisure Community Interest Company component.
- An evaluation of the group's internal controls environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

So far we have not identified any adjustments affecting the reported financial position for the year ended 31 March 2018 with the draft financial statements setting out recorded net expenditure on cost of services of the Council £152.108 million and £152.152 million for the Group. However, our audit is not yet complete as we are currently considering the implications of the Council's treatment of an element of the loans which it holds.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations for the Council remain the same as reported in our audit plan as set out below. Materiality calculations for the group are also set out below.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£8.321 million	£8.150 million	This equates to 2% of your 2016/17 gross expenditure and is considered to be the level above which users of the accounts would wish to be aware in the context of overall expenditure.
Performance materiality	£6.241 million	£6.112 million	Assessed to be 75% of financial statement materiality.
Trivial matters	£0.416 million	£0.407 million	This equates to 5% of materiality.
Materiality for specific transactions, balances or disclosures	N/A	£13,760	Disclosures of officers' remuneration including senior management remuneration disclosures, based on 2% of total senior officer remuneration (including pension contributions). This item merits a lower materiality than financial statement level materiality due to being of particular interest to the public.

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern

The Council achieved a £2.747 million underspend against its revenue budget for 2017/18. The medium term financial plan 2018 to 2021 forecasts a total budget gap of £38m which will be met through additional funding, income generation and transformational service delivery savings. This financial plan demonstrates the Council's ability to continue as a going concern.

Going concern commentary

Management's assessment process

Council approved a budget for 2018/19 which included measures taken and proposed to bridge the £23m budget gap to 31 March 2019.

The plan was based on known sources of funding as well as management forecasts, and included appropriate key assumptions of inflation (both pay and non pay).

Management have also prepared cash flow forecasts to July 2019 which indicate the Council will have sufficient cash flows to continue as a going concern.

Auditor commentary

- Management have concluded that the use of the going concern basis is appropriate. In addition, management did not identify any material uncertainties related to events or conditions which may cast significant doubt about the going concern assumption.
- We are satisfied with the adequacy of management's processes for the preparation of the 2018/19 financial plan. The preparation of the financial plan was overseen by the Chief Financial Officer and the Council has a good historic track record of preparing reliable financial forecasts.

Work performed

We evaluated management's assessment of the Council's ability to continue as a going concern and determine whether or not a material uncertainty exists.

Auditor commentary

- Based on our review, and subject to the satisfactory resolution of the outstanding issue in respect of LOBO loans, we concur with management's assessment of the Council's ability to continue as a going concern.
- We also agree that no material uncertainties related to events or conditions which may cast significant doubt about the going concern assumption exist.
- Our audit opinion in relation to going concern is not modified.

Concluding comments

Significant audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited because there is a high degree of predictability in the main revenue streams
- The culture and ethical frameworks of local authorities, including Trafford Council, mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk for Trafford Council.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.

We have:

- gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness
- obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness
- evaluated the rationale for any changes in accounting policies or significant unusual transactions.

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.

Page 7

Significant audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of property, plant and equipment

The Council revalues its land and buildings over a five year period to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

We have:

- Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- Assessed the competence, expertise and objectivity of any management experts used
- Discussed with the valuer the basis on which the valuation is carried out and challenge the key assumptions
- Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding
- Tested revaluations made during the year to ensure they are input correctly into the Council's asset register
- Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

At the time of writing we are still completing our testing in this area.

4

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.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

We have:

- Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement
- Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out
- Undertaken procedures to confirm the reasonableness of the actuarial assumptions made
- Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

At the time of writing we are still completing our testing in this area.

Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
<p>7 Employee remuneration Payroll expenditure represents a significant percentage (32%) of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interface with sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness; gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls; re-performed all year-end reconciliations and investigated significant adjustments agreed year end accruals to supporting documentation performed substantive analytical procedures disaggregated for each month. <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>8 Operating expenses The Council purchases goods and services from a range of suppliers. At the year-end management uses judgement to estimate the value of goods or services consumed which have not yet been paid for so that where an invoice has not been received appropriate accruals can be reflected in the Balance Sheet. This forms part of the closedown process for both capital and revenue transactions and the use of estimates is required to enable the Council to close its ledgers promptly.</p> <p>Given the use of estimation techniques, we identified completeness of non- pay expenditure as a risk requiring particular audit attention:</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness; gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls; tested the year-end reconciliation of the accounts payable system to the general ledger assessed the accruals process established by management and considered whether it is sufficiently comprehensive to ensure year-end accruals are not materially misstated tested a sample of year end accruals and creditor balances in the year-end balance sheet to confirm these accurately reflect year-end liabilities tested a sample of payments made in April 2018 to confirm the associated invoices have been accounted for in the correct financial year. <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Other issues



This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

	Issue	Commentary	Auditor view
1	Accounting treatment of complex LOBO loans	We have identified a potential issue with the carrying value of certain types of more complex LOBO (lender option borrower option) loans within the financial statements. We identified that Trafford Council has one such loan with a principal value of £20m which was taken out in 2011 and is due to be repaid in 2060.	We are currently reviewing the details of the loan agreement and discussing the appropriate accounting treatment with management. Until this issue is resolved we are unable to conclude our audit and issue our opinion.




Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Trafford Leisure Community Interest Company (subsidiary from 1 October 2015)	Michael Charlesworth LLP	No matters identified to date	At the time of writing we are still completing our testing in this area.


Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>Accounting Policies Note 3(b) (c) and (m) states:</p> <ul style="list-style-type: none"> revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council; revenue from the provision of services is recognised when the Council can measure reliably the percentage of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council; The income for Council Tax and NDR is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the authority, and the amount of the revenue can be measured reliably. Government grants and other contributions are accounted for on an accruals basis and are recognised when there is reasonable assurance that the Council will comply with the conditions attached to the payments, and the grants or contributions will be received. 	<ul style="list-style-type: none"> Revenue recognition policies are in line with the requirements of the Code of Practice on Local Authority Accounting and accounting standards The main elements of the Council's revenue is predictable and there is minimal judgement required from the Council We have completed substantive testing of grants and other revenues. Based on our work to date we are satisfied that the Council has recognised income in accordance with its accounting policies The accounting policies are appropriately disclosed. 	 Green
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> Useful lives of property, plant and equipment Pension fund valuations and settlements Revaluations and impairments Provisions and accruals Fair value of financial instruments, and Valuation of investment in Manchester Airport 	<ul style="list-style-type: none"> The Council's accounting policies for key estimates and judgements are appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code) The accounting policies are appropriately disclosed in note 3 to the financial statements Our audit testing of key estimates and judgements has considered the extent of judgement involved, the potential impact of different assumptions and the range of possible outcomes We are satisfied that the key estimates are appropriate and adequately disclosed and reliance on experts is taken where appropriate The Council has appropriately relied on the work of experts for asset revaluations, pension fund valuations and insurance provisions. We are currently completing our work on financial instrument fair values and the provision for business rates appeals. 	 Green

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Other critical policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	 Green

Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- 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	We have previously discussed the risk of fraud with the Accounts and Audit Committee and we have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ Written representations	A standard letter of representation has been requested from the Council, including specific representations in respect of the Group.
⑤ Confirmation requests from third parties	We obtained direct confirmations from banks for confirmation of year end balances alongside other third party confirmations relating to the Council's investment balances and borrowings. All of these requests were returned with positive confirmation.
⑥ Disclosures	Our review found no material omissions in the financial statements. A small number of disclosure amendments have been made to the financial statements arising from the audit.
⑦ Audit evidence and explanations	All information and explanations requested from management to date has been provided.
⑧ Significant difficulties	We are continuing to work with officers to resolve the issue surrounding the Council's LOBO loan. We are unable to conclude our audit or give our opinion until this issue is resolved..

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
1 Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>We are continuing to review the contents of the narrative report and AGS. Depending upon the resolution of the LOBO issue, it may be necessary to reconsider the contents.</p>
2 Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of 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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters at this stage. We are continuing to review the narrative report and AGS.</p>
3 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.</p> <p>As the Council exceeds the specified group reporting threshold of £500 million we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>Our work is not yet completed and we plan to complete this work ahead of the 31 August 2018 deadline.</p>
4 Certification of the closure of the audit	<p>We do not expect to be able to certify the completion of the 2017/18 audit of Trafford Council in our auditor's report, as detailed in Appendix D as we are currently in the process of completing our work in relation to:</p> <ul style="list-style-type: none"> • the accounting treatment of the Council's LOBO loan • Whole of Government Accounts.

Value for Money

Background to our VFM approach

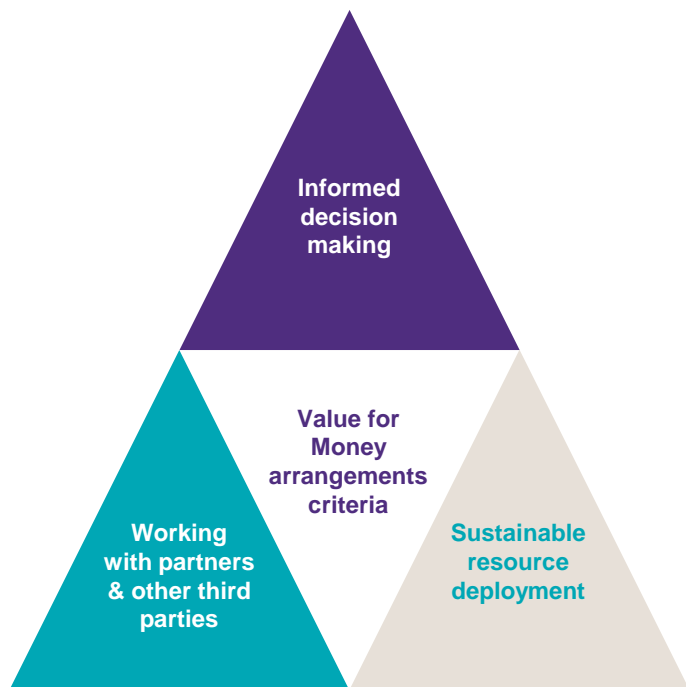
The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single 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.”

This is supported by three sub-criteria, as set out below:

Page 16



Risk assessment

We carried out an initial risk assessment in March 2018 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 9 March 2018.

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.

Value for Money

Our work

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 risk that we identified in the Council's arrangements.

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 on the pages overleaf.

Overall conclusion

We are unable to give our value for money conclusion at this stage. Our work cannot be concluded due to the outstanding issue regarding the Council's LOBO loan accounting. Our conclusions will be updated following resolution of the LOBO issue. There are no other outstanding matters that we are considering in the context of the VFM conclusion.

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.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment.

Significant risk	Findings	Conclusion
<p>1 Future budget pressures</p> <p>The Council's future budgets remain challenging with a budget gap of £41 million to be bridged in order to balance the Medium Term Financial Plan 2018/19 to 2020/21. The budget gap for 2018/19 is c£23 million and is to be met from £11.3 million additional funding, £1.6 million from reserves, £3.9 million income generation and £6.1 million service transformation savings. The Council will also need to manage financial pressures, particularly in Adult Social Care and in Children's Services in order to deliver a balanced revenue budget position over that period.</p> <p>The Council has established a £300 million Capital Investment Fund and appointed investment advisors to support the acquisition of investment assets to generate additional revenue to help bridge the funding gap and also support its regeneration and growth strategy.</p> <p>We have monitored the Council's budgetary performance and financial planning. We considered the processes established by the Council to identify, manage and monitor the savings proposals to address the budget gap to 2021. We will also updated our understanding of the arrangements for overseeing the Council's investments to generate additional income and support regeneration and growth.</p>	<p>The Council achieved a £1.76 million underspend on revenue activity and additional funding from business rates Section 31 compensation grants that resulted in a final net revenue outturn underspend of £2.747 million. The Council has general fund and earmarked reserves of £58.5 million at 31 March 2018, an increase of almost £13 million compared with 31 March 2017. It achieved savings of £14.7 million against a target of £16.9 million that included £1.3 million savings required to be achieved from the 2016/17 savings target. The general fund balance has been maintained at £6 million, the same as at the end of 2016/17 and which is the Council's approved risk-assessed minimum level.</p> <p>Earmarked reserves include £6.7 million Business Rates Reserve which was established by the Council in 2017/18 to offset any fluctuation in business rate income in 2018/19 and later years. The Council's Budget Support Reserve balance at 31 March 2018 was £5.3 million and will be used to smooth potential volatility in revenue budget funding and savings achieved. The final capital outturn for 2017/18 was £41.8 million against a budget of £60.16 million and a spend of £44.77 million against the £295 million investment programme budget.</p> <p>The current and forecast financial position is reported regularly to the Executive Committee in the Budget Monitoring reports. The reports also explain reasons for variances from the previous forecast, pressures and risks.</p> <p>The Council agreed its 2018/19 budget and MTFs to 2020/21 in February 2018 after a process involving the Executive Portfolio Holders, members of the Corporate Leadership Team and other service management supported by Finance Managers. Unlike previous years there was no formal public consultation on the budget proposals which reflected a continuation of savings programmes agreed in earlier years or measures which did not warrant a new consultation. The 2018/19 budget sets out a requirement to balance a budget gap of £22.95 million with a combination of further income generation of £3.92 million, transformational savings of £6.06 million and additional funding and use of reserves of £12.97 million.</p> <p>The 2017/18 budget forms the first year of medium term planning through to 2019/20 using latest economic projections on funding and cost pressures. There are sufficient budget setting arrangements in place including appropriate assumptions such as pay and price inflation and the identification of risks. The budget is also subject to appropriate scrutiny and challenge through the Budget Scrutiny Working Group and committee and Council review and approval process. The MTFs forecasts a residual budget gap of £6.25 million in 2019/20 and £8.85 million in 2020/21. Savings measures are identified within service areas with support from the Transformation support team. Delivery is monitored through monthly reporting to the Senior Leadership Team in service areas. The Transformation Board also receive monthly reports on savings and this informs the overall position reported in Budget Monitoring reports to the Executive committee. Performance against the Council's Annual Delivery Plan, including key performance outcomes against the Vision for Trafford 2031 outcomes, are reported quarterly to Executive.</p>	<p>Based on the work done to date, we are satisfied that the Council has appropriate arrangements in place. However, our work on the value for money conclusion cannot be concluded until we have resolved the issue with respect to the Council's treatment of one of its loans.</p> <p>We will give our value for money conclusion when this issue has been resolved.</p>

Significant risk	Findings	Conclusion
1	<p>The Council has arrangements in place for the implementation of its investment strategy to promote economic development and regeneration and as part of the Council's budget strategy. This includes the appointment of investment advisers to assist in the implementation of the strategy and identification of investment opportunities. An Investment Management Board is also in place to oversee investment decisions and undertake a performance management role. Investment commitments currently total £179 million, of which £58 million has been spent to date out of the £300 million investment fund available. Investments include the Council's work with partners as part of the University Academy 92 (UA92) project and the acquisition of the Grafton Centre in Altrincham to contribute to the Council's regeneration objectives, and debt financing to support residential developments.</p>	

Independence and ethics

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.
- Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B

Audit and 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 following non-audit services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of Teachers Pensions Return	4,200 (TBC)	Self-Interest (because this is a recurring fee)	The fee for this work is yet to be agreed but last year was £4,200. The level of this recurring fee taken on its own is not considered a significant threat to independence in comparison to the total fee for the audit of £118,192 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO Insights Licence	12,500	Self-Interest (because this is a recurring fee)	The fee is a subscription, planned to be recurring, and is therefore high self-interest threat. However, the fee for this work is negligible in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. It is also a fixed fee with no contingent element. These factors all mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Chief Finance Officer. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. We are pleased to confirm that we have not identified any issues so far that require audit adjustments to be made. However, our audit is not yet complete as we are considering issues arising from the Council's arrangements for accounting for an element of its loans.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit so far which have been made in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Cash Flow statement and Note 28 Cash flow statement operating activities	Added disclosure of £24,192k advanced pension payments on a separate line on the face of the cash flow statement instead of as part of operating activities. The group accounts have also been updated.	✓
Note 5 Critical Judgements in Applying Accounting Policies	The following has been added in relation the to early payment of employer pension contributions: <i>The Council is liable to make contributions towards the cost of post-employment benefits. For the 3 year period 2017/18 – 2019/20 the Council has agreed with the Greater Manchester Pension Fund (GMPF) that the employer contributions payable to the Local Government Pension Scheme (LGPS) can be paid as a single up-front payment. Subsequently, in April 2017 the Council paid £36.3m representing an estimate of three years of pension payments to make a budget saving. In line with the Council's accounting policies the amount relating to 2017/18 has been accounted for in year, the amounts relating to 2018/19 and 2019/20 have been offset against the pension liability in the balance sheet. The pension reserve will be aligned with the pension liability in 2019/20 as the up-front payment arrangements are accounted for.</i>	✓
Note 11 Other operating Expenditure	Line included for amount written out on repayment of short term debt £2,000k and proceeds from the repayment of a short term loan £2,000k Amendments also made to associated notes. This is to correct the treatment on the repayment of the loan previously netted off other disposals.	✓
Note 14 Property, Plant and Equipment	In the table for 'Significant commitments under capital contracts as at 31 March 2018', Broadheath Primary School was incorrectly disclosed as £5,539k; amended to £1,139k. In the table for 'Comparative Movements in 2016/17', in the line 'Balance Sheet amount as at 31 March 2017', the total has been amended from £455,348k to £445,348k.	✓
Note 21 Debtors	A footnote has been added to the table 'Short Term Debtors and Payments in Advance' as follows to explain that: <i>Other Debtors £24,265k includes Debtors relating to Housing Benefit Overpayment £5.9m, Adults Social Care Debtors £3.6m, General System Debtors £5.2m and Manual Accruals £6.7m. The following significant balances are included within Manual Accruals, £1.5m Section 31 Compensation Grants relating to Business Rates, £1.2m relating to the Working Well Programme and £1.1m Transformation Fund monies.</i> A classification error for the debtor for the Combined Authority in the table for 'Short Term Debtors and Payments in Advance by Party' has been amended as follows: <ul style="list-style-type: none"> • Other LAs increased by £590,000 from £2,815,000 to £3,405,000 • Bodies External to General Government reduced by £590,000 from £24,521,000 to £23,931,000 	✓

Audit Adjustments

Disclosure omission	Detail	Adjusted?
Note 38 External Audit Costs	<ul style="list-style-type: none"> • (£18,000) Final one-off rebate – as this is a refund from PSAA and does not relate to fees for external audit costs for 2017/18 it has been removed from this note • £2,000 Fees payable in respect of other services has been increased to £15,000 to include the £13,000 payment to Grant Thornton for the CFO Insights licence in 2017/18. A footnote has also been added to explain that £2,000 of the fees for other services relates to VAT consultancy provided in 2016/17. • The total has been amended from £121,000 to £152,000 as a result of the above amendments. 	✓
Note 39 Dedicated Schools Grant	The note has been amended to include 'balance brought forward' £(724)k. There has been a corresponding increase of £724k in 'Actual Central Costs'.	✓
Note 40 Grant and Other Income	<p>A footnote has been added to explain why the 'Balance at 1 April 2017' in the table providing an analysis of contributions received from developers has been amended from the amounts in the 2016/17 audited accounts, as follows:</p> <p>Open Space schemes £2,337k amended from £2,004k</p> <p>Education Schemes £253k amended from £385k</p> <p>Affordable Housing Schemes £1,060k amended from £1,547k</p> <p>Highways/Transport schemes £5,792k amended from £6,510k</p> <p>Total £9,442 amended from £10,446k</p>	✓
Note 41 Related Parties	<p>'Shareholdings' table amended to disclose the following amounts that were not available when the draft accounts were produced:</p> <ul style="list-style-type: none"> • £157,900,000 Profit/(Loss) before Tax • £109,700,000 Profit/(Loss) after Tax • £1,520,600 Net Assets <p>Narrative has been added to explain that:</p> <p><i>Manchester Airport Group Plc owns Manchester, London Stansted and East Midlands airports. Until 4 December 2017 it also owned Bournemouth Airport. This was sold to RCA, part of the Rigby Group.</i></p>	✓
Note 49 Defined Benefit Pension Schemes	<p>The following amendments have been made:</p> <ul style="list-style-type: none"> • Page 129 narrative "the Council paid an employer's contribution of £13.691,000" amended to £12.895,000, which is the amount in the table for 'Transactions Relating to Retirement Benefits. • Page 133 'Pensions – Summary': narrative added to explain why the Balance Sheet shows £205,319,000 pensions liability and £229,512,000 pensions reserve. • Page 134 Narrative added to explain that as a result of applying 1/3 of the advanced cash payment, contributions to the scheme in 2018/19 will be reduced to a net cashflow contribution of approximately £950,000." 	✓

Audit Adjustments

Disclosure omission	Detail	Adjusted?
Effect of Prior Period Adjustments – Group Accounts	<p>Narrative has been added as follows: <i>“Late adjustment concerning tax expense/ (Deferred Tax) of subsidiary resulting in Group Surplus increasing by £104k. Represented by increase in Short Term Debtors of £124k , reduction in Short Term Provisions of £20k and increase Earmarked General Fund Reserves £104k”</i></p> <p>The group accounts have also been updated to include the amount of tax for 2017/18 which was confirmed after the publication of the draft accounts.</p>	✓

Audit Adjustments

Impact of unadjusted misstatements

Our audit has not identified any adjustments for 2017/18 which have not been made within the final set of financial statements.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2016/17 financial statements.

Detail	Comprehensive Income and Expenditure Statement £	Balance Sheet £	Impact on total net expenditure £	Reason for not adjusting
1 Fixed assets (PPE) - Impairment to Brentwood school The amendments required that were reported in 2016/17 have been amended in 2017/18.			No net impact	No net impact
Page 24 Fixed assets		Cr 3,690,341		
Revaluation reserve		Dr 535,626		
Capital adjustment account		Dr 3,154,715		
<ul style="list-style-type: none"> Impairment of PPE in cost of services Revaluation losses on PPE adjustment through MIRS 	Dr 3,154,715 Cr 3,154,715			
<ul style="list-style-type: none"> (Surplus)/deficit on revaluation of PPE Adjustment through MIRS 	Dr 535,626 Cr 535,626			
Overall impact	£0	£0	£0	

Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit	£118,192	TBC*1
Grant Certification	£15,963	TBC*1
Total audit fees (excluding VAT)	£134,155	TBC

TBC1* - The final fees for the Council Audit and Grant Certification will be determined following completion of our work.

Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Non Audit Fees

Fees for other services	Fees £
Audit related services:	
Teachers Pensions Return	TBC*2
Non-audit services:	
CFO insights licence	12,500
	£TBC

TBC*2 – To be confirmed should the Council require us to undertake the review of the 2017/18 return.

Audit opinion

We anticipate we will provide the Group with an unmodified audit report [or amend as appropriate]

Page 26



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