

The Audit Findings for Trafford Council

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2016

29 September 2016

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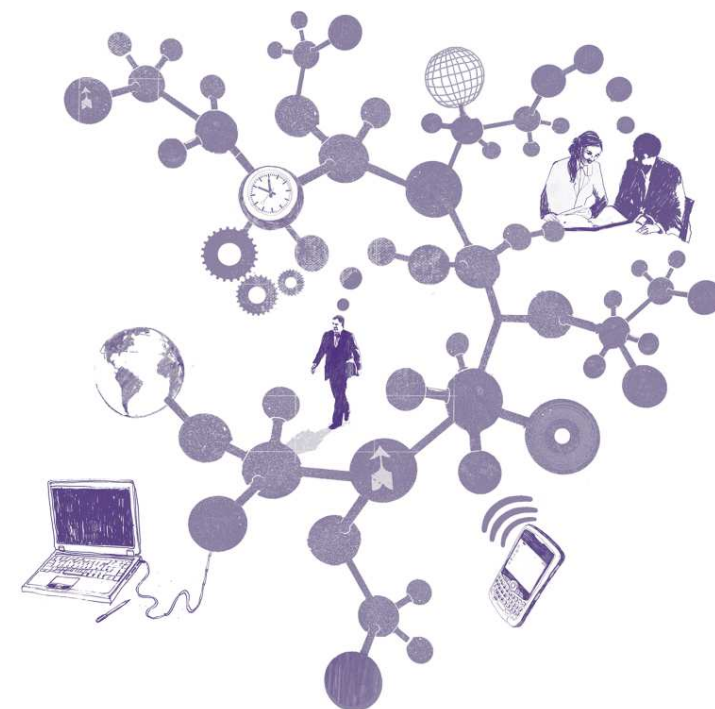
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29 September 2016

Dear Theresa

Audit Findings for Trafford Council for the year ending 31 March 2016

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

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

Mark Heap
Engagement Lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

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Purpose of this report

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

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

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

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

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

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

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

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

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

Introduction

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

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

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

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

Key audit and financial reporting issues

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements by 30 September 2016. We have worked closely with the Council's finance team and are pleased to report that:

- as last year, the draft accounts were prepared to a good standard and were supported by comprehensive working papers
- we were able to commence our audit as previously planned and agreed with the Council
- there are no significant amendments to the accounts as a result of our audit.

We have not identified any adjustments affecting the Council's reported financial position. The Council delivered an underspend of £5.6 million on its service income and expenditure and the audited financial statements for the year ended 31 March 2016 record net cost of services expenditure of £132.7million.

We have agreed a small number of adjustments to improve the presentation of the financial statements. Further details are set out in section two of this report

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

Other financial statement responsibilities

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

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

Controls

Roles and responsibilities

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

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

We draw your attention to control issues identified in relation to a high level review of your IT control environment. Within the SAP system we identified a number of issues regarding access control and segregation of duties conflicts. These issues were raised as part of our 2014/15 audit and revisited in 2016. Salford IT Audit on behalf of Trafford Council Audit and Assurance Service have followed up the recommendations raised during 2016.

Further details are provided within section two of this report.

Value for Money

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

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

Other statutory powers and duties

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

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Accounts and Audit Committee which is due in February 2017.

The way forward

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

We made a number of recommendations to improve IT controls, which are set out in the action plan at Appendix A.

Recommendations have been followed up during the year by Internal Audit and responses included in the action plan.

Acknowledgement

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

Grant Thornton UK LLP
September 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

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05. Communication of audit matters

Materiality

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

As we reported in our audit plan, we determined overall materiality to be £8,258k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £413k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we audit below materiality as these are key figures that should be correct. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.

Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Trafford Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Trafford Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we have completed:</p> <ul style="list-style-type: none"> • a review of entity controls • examination and testing of accounting estimates, judgements and decisions made by management • testing of journal entries to include year end adjusting entries • a review of any unusual significant transactions • a review of IT general controls 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding substantive testing of a sample of employee remuneration, to confirm that employees exist, are paid correctly and are recorded in the general ledger. This included enhancements and employer contributions. tested payroll reconciliations to confirm that payroll totals are accurately and completely recorded in the general ledger. 	Our audit work has not identified any significant issues in relation to the risk identified
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding substantive testing of a sample of operating expenses and year-end testing of balances and new-year payments to source documents. This was to ensure valid spend and appropriate categorisation within the net cost of services headings in the comprehensive income and expenditure statement testing of creditor reconciliations 	Our audit work has not identified any significant issues in relation to the risk identified



Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare expenditure	Welfare benefit expenditure improperly computed	<div>We have undertaken the following work in relation to this risk:</div> <ul style="list-style-type: none">documented our understanding of processes and key controls over the transaction cycleundertaken walkthrough of the key controls to assess whether those controls were in line with our documented understandingsubstantive testing of welfare benefits paid in year to ensure these are accurate and reflect eligibilityverifying the reconciliation between the financial ledger and the housing benefits system	Our audit work has not identified any significant issues in relation to the risk identified

Accounting policies, estimates and judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Business rates and council tax income 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 revenue can be measured reliably. Government grants and third party contributions and donations are recognised as due to the Council 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. Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. 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. 	<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 undertaken substantive testing of grants and other revenues and based on our work to date 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 1 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 	 Green



Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates (continued)		<ul style="list-style-type: none"> We are satisfied that the key estimates and judgements 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, insurance provisions, financial instrument fair values, and the valuation of its investment in the Manchester Airport Group 	
Going concern	<p>The Chief Finance s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future.</p> <p>Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.</p>	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	The Council's accounting policies are appropriate and consistent with previous years.	 Green

Assessment

● Marginal accounting policy which could potentially attract attention from 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	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Accounts and Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained positive direct confirmations from PWLB, and other banks for loans and short term investment balances. All requested confirmations were provided.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of £350 million we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <ul style="list-style-type: none"> Note that work is not yet completed but is scheduled for completion by end of September.


Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses and Welfare Expenditure as set out on pages 11 and 12 above.

In addition our information systems specialist performed a high level review of your IT control environment. This focussed on access controls and segregation of duties within your SAP system, as well as active directory password security.


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

	Assessment	Issue and risk	Recommendations
1.	 Amber	<p>SAP - Segregation of Duties Conflicts</p> <p>Segregation of duties is a fundamental principle of control. It requires that record keeping, custody of assets, authorisation and reconciliation processes are not performed by the same person.</p> <p>We performed a review of the access rights, known as responsibilities, assigned to users within the SAP system.</p>	<p>Management should examine the extent of all user access segregation conflicts and reduce the number of conflicts where possible. It could consider the use of a third party tool to assess such conflicts.</p> <p>Management should examine whether existing compensating controls are appropriately configured to control the risks posed by the access conflicts.</p> <p>Management should consider a process to prevent further conflicts from being introduced into the SAP role structure and user base.</p> <p>Management response</p> <p>Internal Audit have examined the detailed user access conflicts within the system. They are satisfied that certain access privileges are appropriate, actions have been taken on some areas of conflict and there are compensating controls in place to help detect and prevent inappropriate or unauthorised transactions. It is noted that the number of users fluctuates due to staff changes and Internal Audit recommends that the appropriateness of access levels continues to be monitored, which should include a full annual reconciliation. This issue will be reflected in the relevant internal audit report to be issued in September 2016 and it will be subject to further follow-up as part of the 2017/18 Internal Audit Plan.</p>

Assessment



- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Internal controls (continued)

	Assessment	Issue and risk	Recommendations
2.	 Amber	<p>SAP – Excessive access to modify SAP table data</p> <p>There are an excessive number of users with access to sensitive database table editing SAP transaction codes. The SM30 (extended table maintenance) transaction code is not appropriately restricted and the number of users appears to be excessive for the sensitivity of the transaction code. It was observed that 25 dialogue users had access to the SM30 transaction.</p> <p>Access to these transactions under certain conditions can allow customised or standard SAP financial data tables to be edited directly, potentially resulting in unauthorised entries or data integrity problems in the SAP system.</p>	<p>Management should ensure that customisable tables are adequately protected by preventing users from using the SM30 or SM31 (general table maintenance) transaction codes. Where this is not possible due to business requirements SAP customisable tables should be protected via authorisation groups and users restricted in their access to those authorisation groups.</p> <p>Management response</p> <p>Internal Audit have examined the access to modify SAP table data.</p> <p>They are satisfied that the users with access are only able to access one table dependant on their role. The Council has created bespoke transaction codes and roles table restriction is in place. Internal Audit is of the opinion that appropriate controls are in place to mitigate risks in this area. This area will be subject to further audit review as part of the 2017/18 Internal Audit Plan to evaluate the continued effectiveness of controls.</p>

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

Misclassifications and disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	n/a	Narrative report	The Council made corrections to the references in this.
2 Disclosure	n/a	Accounting policies (note 1)	Amendments made to this note to reflect the impact of IAS 13 (Fair value measurements) within the 2015/16 Code. These included updates to notes for Financial Instruments, Property, Plant and Equipment and Investment Properties and an additional note (ac) for fair value measurements.
3 Disclosure	n/a	Critical Judgements in Applying Accounting Policies (note 3)	Group Accounts paragraph updated for the two controlled companies to reflect judgement made on not preparing group accounts on grounds of materiality.
4 Disclosure	n/a	Related Parties (note 40)	Amended to include full names and financial transactions with the two controlled companies (Trafford Leisure and Trust Youth Trafford). Added disclosure that group accounts not prepared this year on grounds of materiality.
5 Disclosure	n/a	Investment Properties (note 14)	Added fair value disclosures (e.g. level assessed).
6 Disclosure	n/a	Contingent Liabilities (note 49)	Added disclosure on warranties and indemnities given to AMEY resulting from transfer (TUPE) of approx. 250 staff in July 2015 in relation to pensions.

Misclassifications and disclosure changes (continued)

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

Adjustment type		Value £'000	Account balance	Impact on the financial statements
7	Disclosure	n/a	Financial Instruments (note 16) and Nature and Extent of Risks Arising from Financial Instruments (note 51)	<p>Corrections to the disclosures in the note, including:</p> <ul style="list-style-type: none"> • valuation of the airport on an earnings basis (not an assets and liabilities one) on page 63 • financial assets and liabilities valuation shown as a level 2 valuation and figures originally included on page 64 of £77m and £104.2m updated to include cash at bank and PFI liability • carrying value column on page 65 now £63,010k and total £149,536k • exit price for PWLB loans on page 66 including the penalty charge of £16.6m updated to include principal • fair value of market loans using new loan rates basis now included to disclose this as £89.4m • the available for sale columns on the table on page 66 for both years amended to correct brackets • table on page 118 shows actual gross debt and CFR £23.3m. Revised to £24.8m.
8	Disclosure	n/a	Available for Sale Financial Instrument Reserve (note 25) (ii)	<ul style="list-style-type: none"> • airport original investment that forms part of the capital adjustment account corrected from £36.7m to £10.2m • the value in the Church Commissioners fund corrected. The original investment in the fund was £5m.
9	Disclosure	n/a	Various	The Council made other minor amendments to referencing , some additions and typing errors.

Section 3: Value for Money

01. Executive summary

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Background

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

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

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

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

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

Risk assessment

We carried out an initial risk assessment in January 2016 and identified the following significant risk, which we communicated to you in our Audit Plan dated February 2016.

Medium term financial position

The Council is facing a continued period of austerity. The 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.

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

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment.

We 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.

Significant qualitative aspects

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

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- future required savings challenges in the medium term. 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.

We have considered the position on future financial challenge, as set out in the latest Medium Term Financial Outlook. Whilst the challenge is significant the Council has appropriate arrangements in place to identify and manage its financial position.

The Council has good arrangements in place to develop financial priorities and redesign services within available resources, to ensure they are used effectively. It has a good understanding of its costs and this enables it to make informed decisions based on accurate information.

There remain significant financial challenges ahead, with further savings to deliver in order to maintain a balanced budget in each of the next three years. 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.

Overall conclusion

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

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Medium term financial position</p> <p>The Council is facing a continued period of austerity.</p> <p>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.</p> <p>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.</p> <p>The general fund reserve balance is above the Council's approved risk assessed minimum level of £6m, as approved by the Council on 17 February 2016. The Council has planned the use of £1.9 million of the general fund reserve to support the 2016/17 budget. In addition the £5.6 million underspend in 2015/16 has enabled the Council to create a budget support reserve to help smooth future budget reductions.</p> <p>The final capital outturn for 2014/15 was £31.9 million against a revised budget of £44.6 million. The underspend of £12.7 million was mainly due to slippage with significant re-profiling of schemes to 2016/17 and the extension of time to agree grant funded projects.</p> <p>The Council agreed its 2016/17 budget in February 2016 after consultation with stakeholders and staff on key decisions and approval by the Executive. The 2016/17 budget sets out a requirement to balance a budget gap of £22.6 million with a combination of efficiencies and income and policy choices. The 2016/17 budget is supplemented with medium term planning projected through to 2019/20 using latest economic projections on funding and cost pressures. 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</p>

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Medium term financial position (continued)</p> <p>The Council is facing a continued period of austerity.</p> <p>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.</p> <p>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 recognises it requires transformational change to manage its budget pressures and ensure sustainability of council services. Its Reshaping Trafford Council Programme will deliver a new organisational model for the Council from 2017/18 by using a mix of different delivery models. The Council has made progress during 2015/16 in key programme areas, including significant work within the Children's Families and Wellbeing (CFW) directorate which has delivered savings of £16.4 million.</p> <p>Continuing uncertainty regarding the Council's medium term financial position and progress on the Reshaping Trafford Programme are both identified as key risks on the Council's Strategic Risk Register. Quarterly strategic risks monitoring is reported to the Transformation, Performance and Resources Group, Corporate Management Team and the Accounts & Audit Committee.</p> <p>The Council continues to develop its approach to reviewing all services to generate additional income and identify collaborative opportunities that release efficiency savings. It has a track record of achieving savings targets and identifying alternative measures and mitigating actions where planned efficiency measures are not delivering the required levels of savings.</p> <p>We concluded from our review of medium term financial and strategic planning that the Council has proper arrangements to plan and monitor finances effectively to support the delivery of its strategic priorities.</p>

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

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

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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

Fees

	Budget £	Actual £
Council audit	118,192	118,192
Grant certification	15,963	15,963
Total audit fees (excluding VAT)	134,155	134,155

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

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

Fees for other services

Service	Fees £
Audit related services:	
• Teachers pension return	4,200

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication to those charged with governance

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

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

Respective responsibilities

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

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

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

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

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

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>SAP - Segregation of Duties Conflicts</p> <p>Management should examine the extent of all user access segregation conflicts and reduce the number of conflicts where possible. It could consider the use of a third party tool to assess such conflicts.</p> <p>Management should examine whether existing compensating controls are appropriately configured to control the risks posed by the access conflicts.</p> <p>Management should consider a process to prevent further conflicts from being introduced into the SAP role structure and user base.</p>	M	<p>Internal Audit have examined the detailed user access conflicts within the system. They are satisfied that certain access privileges are appropriate, actions have been taken on some areas of conflict and there are compensating controls in place to help detect and prevent inappropriate or unauthorised transactions. It is noted that the number of users fluctuates due to staff changes and Internal Audit recommends that the appropriateness of access levels continues to be monitored, which should include a full annual reconciliation. This issue will be reflected in the relevant internal audit report to be issued in September 2016 and it will be subject to further follow-up as part of the 2017/18 Internal Audit Plan.</p>	Implemented with IA follow up 2017/18
2	<p>SAP – Excessive access to modify SAP table data</p> <p>Management should ensure that customisable tables are adequately protected by preventing users from using the SM30 or SM31 (general table maintenance) transaction codes.</p> <p>Where this is not possible due to business requirements SAP customisable tables should be protected via authorisation groups and users restricted in their access to those authorisation groups.</p>	L	<p>Internal Audit have examined the access to modify SAP table data.</p> <p>They are satisfied that the users with access are only able to access one table dependant on their role. The Council has created bespoke transaction codes and roles table restriction is in place. Internal Audit is of the opinion that appropriate controls are in place to mitigate risks in this area. This area will be subject to further audit review as part of the 2017/18 Internal Audit Plan to evaluate the continued effectiveness of controls.</p>	IA follow up scheduled 2017/18

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TRAFFORD COUNCIL

We have audited the financial statements of Trafford Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matters

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

Matters on which we are required to report by exception

We are required to report to you if:

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

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**Respective responsibilities of the Authority and auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

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

Conclusion

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

Certificate

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

Mark Heap

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

4 Hardman Square
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Manchester
M3 3EB

Date to be added



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