

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 2017

September 2017

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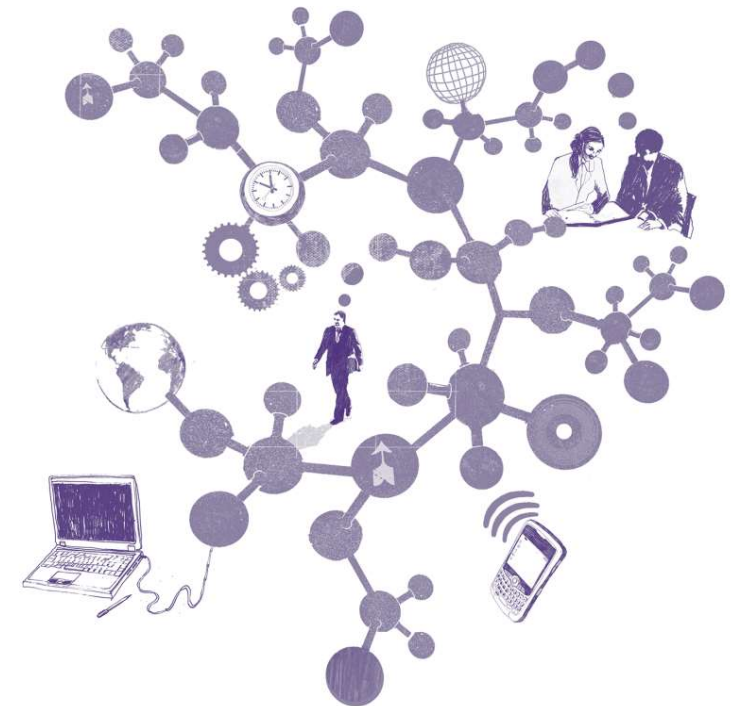
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September 2017

Dear Theresa

Audit Findings for Trafford Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Trafford Council, the Accounts and Audit Committee), to oversee the financial reporting process, 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 auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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

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 Group and Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on 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 year.

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 March 2017. We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable. Our audit is substantially complete although we are finalising our procedures in the following areas:

- transaction testing on journals and employee remuneration
- obtaining some supporting documentation for debtors, creditors and operating expenses
- assessing pension guarantees
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised versions of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We will give a verbal update at the meeting on the areas above.

Key audit and financial reporting issues

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements by 30 September 2017. 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 £4.319 million on its service income and expenditure and the audited financial statements for the year ended 31 March 2017 record net cost of services expenditure of £136.1 million.

We have agreed a small number of adjustments to improve the presentation of the financial statements.

In addition we identified from our work a school building on the asset register with a value of £3.1m which should be impaired to nil. The land for the school is held as an asset for sale at a value of £1m and a new school was built on a different site in September 2016. Management have not adjusted for the impairment of school in the final accounts.

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 A).

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 AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

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

Our work has not identified any control weaknesses which we wish to highlight for your attention.

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 details 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 2017. We will report the outcome of this certification work through a separate report to the Accounts and Audit Committee which is due in February 2018.

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.

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 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £8,143,000 (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 £407,000. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	All transactions made by the Council affect the cash balance and it is therefore considered to be material by nature.	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.	£10,000

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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
<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>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>
<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 a review of:</p> <ul style="list-style-type: none"> • entity controls • the journal entry process and selection of unusual journal entries for testing back to supporting documentation • accounting estimates, judgements and decisions made by management • unusual significant transactions. 	<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>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

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
<p>Employee remuneration</p>	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> 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. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Operating expenses</p>	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> 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 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Welfare benefit expenditure</p>	<p>Welfare benefit expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified welfare benefit expenditure as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Welfare benefit expenditure improperly computed 	<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 welfare benefits paid in year to ensure these are accurate and reflect eligibility verifying the reconciliation between the financial ledger and the housing benefits system 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for recording the required financial reporting changes to the 2016/17 financial statements reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>Our audit work has not identified any significant issues in relation to the risk identified</p>

Audit findings against other risks continued

Going concern

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&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that it is appropriate to prepare the accounts on a going concern basis.



Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Trafford Leisure Community Interest Company (CIC) Ltd	No	Analytical	N/A	Desktop review performed by GT UK	Our audit work has not identified any issues in respect of the Group consolidation of the CIC.

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 2016/17 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 – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<p>SAP – Excessive access to modify SAP table data</p> <p>We found an excessive number of users with access to sensitive database table editing SAP transaction codes. 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>	<ul style="list-style-type: none"> • The issues raised were further followed up by Internal Audit with IT Services and a follow up internal audit report was issued in October 2016. Findings were that such access was limited as although at the time of the audit there were a large number of users (24 at the time of the audit), they were only able to access one table dependant on their role as appropriate restrictions are in place. This means that users are only able to access tables that have been allocated to them. Trafford has since created bespoke transaction codes that were not reviewed as part of the original audit. • There was also a full license review performed in December 2016 that has resulted in a full review of all roles. • Further to this, Internal audit work undertaken in August 2017 found that users have restricted authorisations. Details will be fully reported in a further follow up audit with a draft report to be shared with IT Services in September 2017.
2.	✓	<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 and found a number of user access segregation conflicts.</p>	<ul style="list-style-type: none"> • As confirmed in an internal audit report issued in October 2016, ICT services agreed that an annual reconciliation of access rights would be undertaken to ensure they are appropriate, and processes have been put in place to peer check 100% of all SAP Master Data changes, with a 10% supervisor check. Further compensating controls are also in place to prevent fraudulent payments being made. • Following further audit work, undertaken in August 2017, it was confirmed that the SAP manager has further improved controls by ensuring that the two members of staff with full access perform their duties in the development rather than live production environment, with a formal access request process in place if access to production is required. There is also a log produced that highlights all users that have performed a key action in production.

Assessment
 ✓ Action completed
 X Not yet addressed

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 Group Balance sheet			
Compensating error between short term debtors and creditors			
Short term debtors		<i>Dr</i> 3,100	nil
Short term creditors		<i>Cr</i> 3,100	
Overall impact		£0	

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Accounts and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement/MIRS £'000	Balance Sheet £'000	Reason for not adjusting
1 Fixed assets (PPE) - Impairment to Brentwood school			
- Fixed assets		<i>Cr</i> 3,690,341	No net impact
- Revaluation reserve		<i>Dr</i> 535,626	
- Capital adjustment account		<i>Dr</i> 3,154,715	
- Impairment of PPE in cost of services	<i>Dr</i> 3,154,715		
- Revaluation losses on PPE adjustment through MIRS	<i>Cr</i> 3,154,715		
- (Surplus)/deficit on revaluation of PPE	<i>Dr</i> 535,626		
- Adjustment through MIRS	<i>Cr</i> 535,626		
Overall impact	£0	£0	No overall net impact

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	Note 54 Prior period adjustments (note 54)	Note updated to reflect the adjustments to comparatives within the Comprehensive Income and Expenditure (CI&E) cost of services
2 Disclosure	n/a	Financial Instruments (notes 18 & 52)	Various amendments to the note including: <ul style="list-style-type: none"> incorrect comparative for Trade debtors (restated to £5,210,000) fair value hierarchy of the Airport (page 78) restated to Level 2 clarification of the wording with the fair value of assets and liabilities carried at amortised cost (page 79) details of credit risk exposure (in note 52) amended to £35k (originally included in error as £353,000) correction to the upper limits on fixed interest rates (per note 52)
3 Disclosure	n/a	Capital Commitments – PPE (note 14)	Removal of the £5,008,000 commitment for Depot Relocation as the legal agreement for the new depot was finalised after the year end, in April 2017
4 Disclosure	n/a	Contingent liabilities (note 50)	Additional details added to provide clarity on potential pensions guarantee costs
5 Disclosure	n/a	Group Accounts	As the Group accounts are statutory statements these have been included within the main statements. They were originally included within the supplementary statements.
6 Disclosure	n/a	Narrative report	Some additional details included in the narrative report to provide further clarity on the performance of the Council.
7 Disclosure	n/a	Property, plant and equipment (PPE) (note 14)	Corrections to details within the PPE note; <ul style="list-style-type: none"> revaluation adjustment line corrected due to compilation errors valuation of non current assets at fair value updated to reflect accurate analysis
8 Disclosure	n/a	Various	Various other corrections to minor cross referencing and typing errors

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

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 2016. AGN 03 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.

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 February 2017 and identified the following significant risk, which we communicated to you in our Audit Plan dated March 2017.

Medium term financial position

Future budgets remain challenging with further austerity reductions and increasing demand and costs. The Council's 3 year budget strategy to 2019/20 identifies the need to address a gross budget deficit of £47.7m.

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 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 2016/17 and the budget plans from 2017/18 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 Budget Proposals 2017/18 and Medium Term Financial Strategy 2018/19 to 2019/20 requires the Council to make savings and efficiencies of £47.7 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 over £25 million.

The Council has set a balanced budget for 2017/18. The Council are planning to meet the £25.4 million budget gap with a combination of further income and transformational savings (£15.6 million) and additional funding and use of reserves (£9.8 million). There remain significant financial challenges ahead and the Council recognise that it is becoming increasingly difficult to identify efficiencies to close anticipated future funding shortfalls. The MTFs identifies further savings to deliver in order to maintain a balanced budget in each of the next two years. The Council is considering all options at an early stage, to ensure robust savings proposals can be developed in order to bridge the residual budget gap of over £19 million over the next two years.

The Council is developing its 'Together Trafford Vision 2031' in partnership with key agencies and by engaging with stakeholders. This aims to shape a longer term vision for Trafford and create a place where people want to live, stay and invest. The Vision consists of a number of major programmes including, public service reform, health and social care intervention, social care sustainability and investment and place shaping. These are underpinned by short to medium term priorities (or interventions) which align to the Council's Annual Delivery Plan.

The Council has appropriate arrangements in place to develop financial priorities and redesign services within available resources, to ensure they are used effectively. The Council continues to explore and review its strategies to reflect local and national changes and is progressing with actions aimed to meet the future financial 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>Future budgets remain challenging with further austerity reductions and increasing demand and costs.</p> <p>The Council's 3 year budget strategy to 2019/20 identifies the need to address a gross budget deficit of £47.7m.</p>	<p>We assessed the out-turn position for 2016/17 and examined the Council's arrangements for putting together and agreeing its budget plans from 2017/18 onwards.</p> <p>This included considering savings and efficiency plans, mitigating actions and contingencies.</p>	<p>The Council achieved a £4.32 million underspend on revenue activity and has general fund and earmarked reserves of £ 45.6 million at 31 March 2017. It achieved savings of £15.5 million against a revised target of £16.10 million. The Council reduced its general fund reserve by £1.89 million as part of its budget strategy. The general fund balance is now £6 million which is the Council's approved risk-assessed minimum level. The Council plans to maintain the general fund reserve at this level and maintain earmarked reserves to support future budgets to 2019/20. The Council has projected total earmarked reserves of £18 million by 2019/20 which include a budget support reserve of £3.5 million to help smooth future budget reductions.</p> <p>The final capital outturn for 2016/17 was £28.21 million against a revised budget of £42.44 million. The underspend of £14.23 million was mainly due to planned re-profiling of some schools projects, a review of Leisure strategy assets and re-phasing of £5 million of the contribution to the Metrolink extension into 2017/18.</p> <p>The Council agreed its 2017/18 budget and MTFS to 2019/20 in February 2017 after a process of consultation with stakeholders, scrutiny and with approval by the Executive. The 2017/18 budget sets out a requirement to balance a budget gap of £25.4 million with a combination of further income and transformational savings (£15.6 million) and additional funding and use of reserves (£9.8 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. The MTFS to 2019/20 requires the Council to make savings and efficiencies in excess of £47.7 million over the three years from 2017/18 to 2019/20. The Council has balanced the 2017/18 budget but is currently considering options to ensure robust savings proposals can be developed in order to bridge the residual budget gap of over £19 million over the next two years.</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 continues to review its strategy and is developing a longer term vision for Trafford. During 2016/17 the Council and partners have agreed a number of major programmes and projects within its ‘Together Trafford Vision 2031’ which aim to create a place where people want to live, work and invest. This Vision reflects local and national changes including devolution, future financial challenges, Greater Manchester Public Service Reform and integration. It is underpinned with a number of key priorities which have been aligned to the Council’s Annual Delivery Plan. The Council will regularly report progress against these to the Executive.</p> <p>The Council is also developing an Investment Strategy to fund projects that will deliver economic development and regeneration and generate additional income streams to support the revenue budget. This will help support and maintain the provision of services in future years.</p> <p>Continuing uncertainty regarding the Council’s medium term financial position and developments with Together Trafford Vision 2031 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 future opportunities for Trafford in the context of the challenging financial landscape. It has a track record of meeting its revenue budget 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

	Proposed fee £	Final fee £
Council audit	118,192	118,192
Grant certification	11,498	11,498
Total audit fees (excluding VAT)	129,690	129,690

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

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'.

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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all other services which were identified.

Fees for other services

Service	Fees £
Audit related services:	
• Teachers pension return	4,200
Non-audit services	nil

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

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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.psa.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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

A. Audit Opinion

A: Audit opinion

We anticipate we will provide the Group 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 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Cash Flow Statement, the Group Cash Flow Statement, the Collection Fund Statement 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 2016/17.

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 Authority's 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 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 and Group'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, 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 and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared 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: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**Respective responsibilities of the Authority and auditor**

The Authority is responsible for putting in place proper arrangements for securing 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 for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. 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 for securing economy, efficiency and effectiveness in its use of 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 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2017. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

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September 2017



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