



# 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.

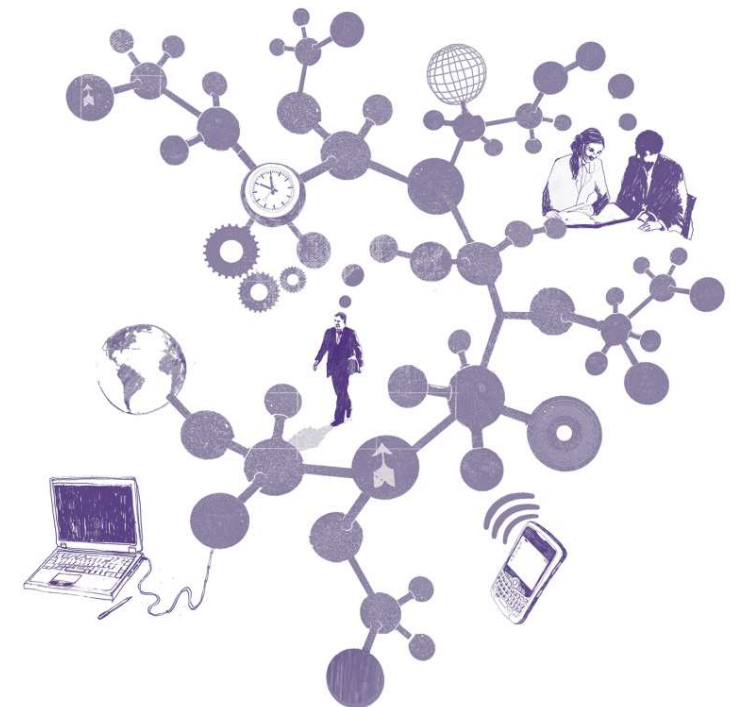
**Year ended 31 March 2014**

September 2014

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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. 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.

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## Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Trafford Council's (the Council) financial statements for the year ended 31 March 2014. 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 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income 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 reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated April 2014.

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

- finalising some transaction testing on journals and operating expenses
- agreeing entries within the CIES to supporting analysis
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of final version 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 received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

The key messages arising from our audit of the Council's financial statements, are:

- the audit has not identified any adjustments affecting the Council's reported financial position
- we examined the provision for business rates appeals and discussed the detailed methodology. In our view the provision for unknown appeals of £20.5m appears very prudent, particularly in relation to estimates for unknown appeals expected in years 6 and 7 of the 2010 list. We do not consider the value however to be materially misstated.
- we identified a number of minor adjustments to improve the presentation of the financial statements
- the draft accounts were of good quality, as confirmed by our central technical team's initial review of the financial statements. Working papers were of good quality, and finance staff responded promptly to all audit queries. Further working papers were produced as required during the audit.

Further details are set out in section 2 of this report.

**Value for Money (VfM) conclusion**

Based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, and having regard to the Audit Commission's VfM audit framework, we propose to give an unqualified VfM conclusion.

There was a serious misreporting and understatement of the projected financial deficit on adult social care (ASC) services during the year, which led to a deficit of some £3.6m for that service. But the deficit was contained within ASC, and a combination of underspends on other services, plus additional income, meant that the Council's overall budget underspent in total by £3.7m.

The Council has identified measures to meet the potential budget gap of £6.5m caused by incorrect assumptions about demand for ASC services that were masked by the in-year misreporting. It also has in place arrangements through the on-going revision to the medium term financial strategy (MTFS) process, to identify and approve recurrent savings to secure the Council's medium term financial position.

Financial and service performance across the Council's wider services are good and the level of reserves at 31 March 2014 were above the Council's minimum approved level, but may dip below them at the end of 2014/15. The Council will need to ensure through its budget planning that general reserve balances are at or above the approved minimum level.

There are clearly some difficult decisions to take to secure long term financial resilience, but the Council's track record across its range of services, and the corporate arrangements in place suggest that arrangements in place will position it well to meet the challenge successfully.

Further detail of our work on Value for Money is set out in section 3 of this report.

**Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

**Controls**

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. During the year there were weaknesses within its budget monitoring arrangements within ASC services, as referred to earlier. The Council carried out a thorough investigation into the events and circumstances leading to the misreporting and outturn ASC service deficit. It has now agreed an action plan to address the weaknesses identified, with clear timescales and responsibilities to address them.

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. We have not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section 2 of this report.

**The way forward**

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

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Finance and the finance team.

**Acknowledgment**

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.

## 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

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 2 April 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have completed the work set out in our Audit Plan as previously communicated to you on 25 March 2014. Because of the serious issue identified in relation to misreporting of the financial position in ASC, and the outturn ASC service deficit, we needed to carry out additional audit work to assess the cause and impact of the problem. This included forensic examination of the Council's own internal investigation.

## **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.



# 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 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><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>As part of our audit work we have completed:</p> <ul style="list-style-type: none"> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<p>As part of our audit work we have completed:</p> <ul style="list-style-type: none"> <li>• a review of significant accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> <li>• review of IT general controls</li> </ul>	<p>Our audit work has not identified any evidence of management override 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. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• tested operating expenses including sample testing of expenditure, year end accruals and creditor balances</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Employee remuneration</b>	Employee remuneration accrual understated	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• substantive testing of sample of 60 items of salary payments to employees</li> </ul>	Our audit work to date 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. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the welfare expenditure system</li> <li>• walked through the key controls to determine if those controls are designed effectively</li> <li>• substantive testing of a sample of benefit payments to individual claimants</li> <li>• agreed welfare benefit expenditure to accounts and supporting notes</li> <li>• substantive testing of payment rates used in the benefits system</li> </ul>	Our audit work to date has not identified any significant issues in relation to the risk identified
<b>Property, plant &amp; equipment</b>	PPE activity not valid	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the property, plant and equipment cycle</li> <li>• walked through the key controls to determine if those controls are designed effectively</li> <li>• substantively tested samples of additions and disposals</li> <li>• agreement to accounts and supporting notes</li> </ul>	Our audit work to date 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. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Property, plant &amp; equipment</b>	Revaluation measurement not correct	We have assessed the work completed by the Council's valuer in relation to this risk and: <ul style="list-style-type: none"> <li>• examined the analysis which demonstrates that the value of assets in the Council's balance sheet is not materially different from the amount that would be given by a full valuation carried out on 31 March 2014.</li> <li>• tested the accounting entries posted to reflect valuations obtained</li> </ul>	<b>Revaluation</b> The Council operates a five year rolling programme of asset valuation, designed to cover all asset held by the Council over this period. In our view, however, this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value all items within a class of assets simultaneously, This is explained further on page 14. We were able to obtain reasonable assurance that the values at 31/3/14 are not materially misstated .

# Accounting policies, estimates & 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
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Revenue from the provision of services is recognised when the Council can measure reliably the level of completion of the transaction and it is probable that benefits will flow to the Council</li> <li>Government Grants are recognised when there is reasonable assurance that the Council will comply with any conditions attached to the payments</li> </ul>	<ul style="list-style-type: none"> <li>The Council's policy is entirely appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice</li> <li>The main elements of the Council's revenue is predictable and there is minimal judgement required from the Council.</li> <li>The revenue recognition policy of the Council is appropriate to the accounting framework and are adequately disclosed. Our audit testing has not identified any areas of concerns in respect of revenue recognition</li> </ul>	 <b>Green</b>
<b>Judgements and estimates</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>useful life of capital equipment</li> <li>pension fund valuations and settlements</li> <li>revaluations</li> <li>impairments</li> <li>provisions/accruals</li> </ul>	The Council's policies on estimates and judgements are reasonable and appropriately disclosed and reliance on experts is taken where appropriate.	 <b>Green</b>
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	 <b>Green</b>

## Assessment


● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate and disclosures sufficient

● Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & 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
<p><b>Judgements and estimates PPE</b></p>	<p>Key estimates and judgements include the classification, valuation, impairment and useful life of property, plant and equipment.</p> <ul style="list-style-type: none"> <li>Note 12 to the accounts sets out the authority's rolling programme of revaluations. This shows that the date of valuations vary between 31 March 2010 and 31 March 2014.</li> <li>In our view, however, this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value items within a class of property, plant and equipment simultaneously.</li> <li>This paragraph of the Code, which is based on IAS 16 Property, Plant and Equipment, does permit a class of assets to be revalued on a rolling basis provided that:                             <ul style="list-style-type: none"> <li>- the revaluation of the class of assets is completed within a 'short period'</li> <li>- the revaluations are kept up to date.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>This approach is similar to many other authorities and we are satisfied that the carrying value of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014. The valuer has provided relevant assurances in this respect. These are supported by the examination of all assets in excess of £2m and the application of national indices relating to property value movements in recent years.</li> <li>The Council may wish to consider an alternative approach to valuations to achieve full compliance with the requirements of the code as currently stated.</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>

**Assessment**

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient
- Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & 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
<p><b>Judgements and estimates business rates appeals</b></p>	<p>A key estimate included within the 2013/14 financial statements is the provision for appeals against national non-domestic (NDR) rateable value assessments.</p> <p>Note 3 to the collection fund shows the Council has included a £36.8m provision as an estimate of likely rateable value appeals against current valuation office (VO) assessments (against the 31 March 2010 listing).</p> <p>The provision is made against the following estimates:</p> <ul style="list-style-type: none"> <li>• £16.3m for those appeals received and not settled as at 31 March 2014 (known), and</li> <li>• £20.5m for likely additional appeals (unknown) as at 31 March 2014 against the current 2010 valuation list. This runs over the 7 year period up to March 2017.</li> </ul>	<p>We have examined the methodology supporting the calculation of the NDR appeals provision. We have:</p> <ul style="list-style-type: none"> <li>• Agreed a sample of calculations in the financial model</li> <li>• Reconciled the value of rateable value appeals to VO listings</li> <li>• Examined assumptions supporting the success rates of past appeals</li> <li>• Examined assumptions for the application of likely further appeals based on past VO lists.</li> </ul> <p>We are satisfied that the methodology adopted and the value of the provision for known appeals is reasonable.</p> <p>We have some reservations about evidence to support assumptions for unknown appeals that could potentially be received up until March 2017 relating to assessments prior to 31 March 2014. In particular the provision included for potential appeals received in years 6 and 7 (£7.2m) looks potentially over-prudent and is not well supported by evidence.</p> <p>We are conscious that it is particularly difficult to predict appeals not yet received based on applying past data to current rateable values.</p> <p>As the area of uncertainty is £7.2m and we are satisfied that some appeals will be received for years 6 and 7, we have concluded that the provision overall is materially correct.</p> <p>We recommend however that the Council reassess the value of its provision for rateable value appeals as more information becomes available on levels of appeals being made.</p>	<p style="text-align: center;">● Amber</p>

**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

## Misclassifications & 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 Misclassification	£5,787	Collection fund	Previous year's comparatives restated for write offs totalling £5,787k - netted off income from Non-Domestic Rate Payers in 2012/13.
2 Misclassification	£3,385	CIES	Adult Social care grant amounting to £3,385k originally included in taxation and non-specific grant income. Reclassified under cost of services as ring-fenced to Adult Social Care
3 Disclosure	n/a	Cash flow	Amendments as follows: <ul style="list-style-type: none"> <li>• correction of errors arising from invalid treatment of NDR agency arrangements</li> <li>• comparatives for cash flow restated for IAS19 changes to accounting standard</li> <li>• additional notes provided showing analysis of adjustments for non-cash adjustments and financing &amp; investment adjustments.</li> </ul>
4 Disclosure	n/a	Accounting policies (note 1)	Additional notes added for Council Tax and NDR
5 Disclosure	n/a	Accounting policies (note 3)	Additional disclosure added explaining account treatment of schools.
6 Disclosure	n/a	Contingent liabilities (note 49)	Note 49(j) deleted as not required. This referred to pooled fund deficit which is not a contingent liability (i.e. as incurred already).



## Misclassifications & 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
7 Disclosure	n/a	Related Parties (note 40)	Note amended to add Trafford CCG as related party.  Disclosure added explain that several of the parties included in note are not related parties disclosure given for information only.
8 Disclosure	n/a	Financial Instruments (Note 16)	Amendment made to include Homestep and Local Authority Mortgage Scheme loans totalling £4,287k as financial instruments.  Tables of financial instrument assets and liabilities represented to improve disclosure.
9 Disclosure	n/a	Various	Other minor adjustments to notes to ensure consistency of disclosure and corrected values and terminology

## 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. 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.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	●	<p>Budget monitoring</p> <p>There were serious weaknesses in arrangements to monitor and manage the budget within adult social care services (ASC), which involved misreporting by an officer, and late identification of an ASC service deficit of £3.7m . The Council carried out a thorough review of the events and circumstances, and agreed a clear action plan to address the control weaknesses identified. The review, confirmed that The misreporting and failings in budget management were not symptomatic of wider problems across the Council's services. Our own forensic review of the Council's investigation confirmed the conclusions and recommendations reached. The Council has agreed an action plan to address the weaknesses identified.</p>	<ul style="list-style-type: none"> <li>Carry out close monitoring and regular reporting to confirm successful implementation of recommended actions to address weaknesses in ASC budget monitoring and management.</li> </ul>

### Assessment

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

**Slide 18**

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**MJW1**

Mick J Waite, 16/09/2014

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Accounts and Audit Committee and been made aware of an undetected budget overspend concealed by a finance officer. The Council completed investigation work to identify the extent of the weakness in the controls within budget monitoring arrangements. This is reported within the internal controls section.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

## 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

# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

**The Council has proper arrangements in place for securing financial resilience** - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Along with all councils, Trafford continues to operate within an increasingly challenging financial environment. Against this backdrop the Council has demonstrated a track record over the last few years of meeting efficiency targets and managing its revenue budget well.

During 2013/14 there was poor budget management and serious misreporting of the projected financial position in Adult Social Care (AS) services. This led to an outturn deficit for the service of some £3.6m. But underspends across the Council's wider services together with additional income resulted in an overall underspend of £3.7m against the Council's 2013/14 revenue budget.

The Council carried out an internal investigation into the events and circumstances that led to the ASC service deficit, and that led to the full extent of the deficit only being identified towards the end of the financial year. The Council's review confirmed that there were significant failings in arrangements within ASC to monitor, report and manage the projected financial position in relation to demand-led services for adults, including learning disabilities. The review confirmed however, that money had not been misappropriated, and that money had been spent on proper purposes. It also confirmed that the ASC service deficit, financial misreporting and failure to adequately monitor and manage the ASC budget were contained within ASC. It identified some weaknesses in budget management arrangements, generally and scope to improve, but there was no evidence of misreporting or significant overspends more widely across the Council's services. We carried out a forensic review of the Council's investigation and confirmed that:

- The Council's investigation report properly reflects the findings of the investigation, and the conclusions and recommendations in the report are reasonable in light of the findings.
- Financial reporting and performance management within the Finance Service was ineffective in identifying and reporting projected significant overspends in Adult Social Care.

## Value for Money

- The significant overspend and outturn deficit, and the financial misreporting that prevented it from being identified until late in the financial year, are contained within Adult Social Care. While there were some weaknesses in budget monitoring arrangements, and scope to improve, there was no evidence that the financial misreporting of the budget position was symptomatic of wider failings across the council services.

The Council has agreed an action plan to address the recommendations in the report, and, if implemented, the actions will address the problems identified and strengthen arrangements to monitor and manage demand led budgets

The misreporting and budget mismanagement reported above, resulted in incorrect base budget assumptions for demand-led ASC services being built into the 2014/15 budget. The extent of the potential budget gap was in the region of about £6.5m for 2014/15. Consequently the Council was left with a significant challenge to achieve a balanced budget for 2014/15.

The report to The Executive and Council on 1 September entitled, 'Children's, Families and Wellbeing (CFW) Budget 2014-15' shows the Council have set out proposals to achieve additional in-year savings to reduce the shortfall by at least £4.8m, and approved the further use of up to £1.6m from general reserves to support the 2014/15 budget. Some of the proposals are one-off or short term measures to allow time to identify recurrent savings for the medium to longer term.

The Council is now preparing a revised medium term financial strategy that will look to identify and build in recurrent savings to secure financial resilience over the period to 2018. Clearly there are big challenges ahead, and some difficult decisions to take. And it is undoubtedly the case that the Council's financial position has been made much more challenging by the failure to monitor and manage the ASC service budget effectively in 2013/14.

### Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Our forensic review of the Council's investigation into budget monitoring in ASC included looking at:

- the link between risk and performance management, and
- the scope for effective challenge by senior management, including Chief Officers and key members

We Concluded that:

- The risk management process took assurances in relation to both demand for care and budget performance, largely derived from monitoring and management by the Business Delivery Group in Children, Families and Wellbeing Directorates Adult Social Care services (CFW ASC). But the BDG was not effective in managing the budget and financial risk in relation to demand led services, and so any assurance from this source was misplaced.
- The level of challenge exercised by key members and chief officers was appropriate to the information provided to them, but the information was deliberately misreported, and this was instrumental in preventing effective challenge

We are satisfied that the outcome of risk and performance management arrangements across the Council's wider services are effective. This has resulted in a number of favourable service outcomes across the Council's wider services, including:

- CYPS is a high performing service area that has been rated as 'Performing Excellently' by Ofsted in their annual assessment for the last two years

# Value for Money

- The Care Quality Commission (CQC) has identified that Trafford's services are excellent
- The Council has the highest collection rate for Council Tax and business rates in Greater Manchester
- Trafford is one of the best performing and low cost waste collection services in Greater Manchester
- Trafford performs well on community safety, with the high levels of public confidence and satisfaction

## **Overall VFM conclusion**

- On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014



We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	<p>The Council achieved a planned underspend on revenue activity of £3.7m and has a general fund reserve balance of £10.98m at 31 March 2014. The general fund reserve balance as at 31 March 2014 was above the Council's approved risk assessed minimum level of £6m approved by the Council on 19 February 2014. However the latest budget report for 2014/15 shows the Council is planning to use £2.3m of general fund reserves to support the budget and also has other potential calls on reserves that may reduce these to below the minimum level.</p> <p>The final capital outturn for 2013/14 was £35.5m against a revised budget of £41.4m, an underspend of £7.9m, due re-profiling of some schemes for delivery during 2014/15.</p> <p>The Council manages long term loans and both long and short term investments to minimise the interest payable on external borrowing, and to generate as high an income level as possible on cash deposits relative to risk. The Council's borrowing at 31 March 2014 is £100.7m (£103.4m in 2012-13) with £3.2m of this due within 12 months. According to the Audit Commission nearest neighbour benchmark group for 2012-13, the Council showed it had a comparatively lower than average ratio of borrowing:</p> <ul style="list-style-type: none"> <li>• long term borrowing as a percentage of tax revenues was 0.69 (69%) in 2012-13, compared to an average of 1.54 and was the second lowest in the group</li> <li>• long term borrowing as a percentage of long term assets was 0.22 (22%), compared to an average of 30% and fourth lowest in the group</li> </ul> <p>The Council complied with treasury management and prudential indicators and benchmarks set for 2013-14.</p>	<b>Green</b>

Theme	Summary findings	RAG rating
<b>Key indicators of performance (contd)</b>	<p>In-year collection rates for both Council Tax and Business Rates in 2013/14 were higher than planned for, and for the fifth year running were the highest amongst Greater Manchester Authorities. A total of £93m of Council Tax was collected in respect of 2013/14, a performance of 97.7% (98.1% in 2012/13).</p> <p>In 2013/14 the average number of days lost by the Council due to sickness was 10.26 (2012/13 10.02 days). This is above the average of 8.8 days for local government in 2012/13 and also the public sector as a whole, 8.7 days, and the private sector, 7.2 days.</p>	<b>Green</b>
<b>Strategic financial planning</b>	<p>The Council set a two year Budget Plan for 2013/14 and 2014/15 supplemented with medium term planning projected through to 2018-19 using latest economic projections on funding and cost pressures.</p> <p>The Council has a process for building up its medium term plans using base budget assumptions to identify the budget gap and then develops budget proposals and efficiencies to bring this into balance.</p> <p>The Council set the two year Plan in March 2013 after public consultation on key decisions and approval by the Executive. The Plan initially set out the requirement to balance a budget gap of £38.9m with a combination of efficiencies, new income and reserves, changes to terms and conditions and other savings.</p> <p>The recent investigation into the budget overspend identified that the Council needs to take action to strengthen budget monitoring processes in the CFW Directorate (ASC) and secure improved risk and performance management arrangements. The 1 Sept report to the Executive and Council sets out options to secure savings for the 2014/15 budget, and the Council needs to identify recurrent savings in the revised MTFs to secure financial resilience in the medium term. The Council will also need to continue to monitor closely and report on the additional cost savings measures during 2014/15 to minimise the calls on reserves. Depending on performance on the learning disabilities pooled budget, general fund balances could dip below the approved minimum level at the end of 2014/15, and the Council needs to monitor this closely</p> <p>Latest medium term plans highlights that over the next few years there is a significant budget gap, comprising £14m in 2014/15, £24m in 2015/16 and £18m in 2016/17. So, the challenge ahead is considerable.</p> <p>The Council's track record in achieving required savings and efficiencies provide some assurance that it will meet the challenge successfully.</p>	<b>Amber</b>

Theme	Summary findings	RAG rating
<b>Financial governance</b>	<p>Financial governance arrangements at the Council generally are adequate. The Council has a well established approach to financial governance with appropriate involvement of members, senior officers and budget holders in the budget setting process. There is a good level of understanding amongst members, management and staff in general of the financial environment and the challenges facing the Council. Members provide a robust challenge on financial matters. There is sufficient engagement with staff and stakeholders as part of the service and financial planning process to receive their input on the proposals and priorities of the Council.</p> <p>The Council have completed an investigation into the budget overspend in Adult Social Care Services during 2013/14 to address particular governance issues there in relation to budget monitoring and management, and financial reporting. The Council has agreed an action plan of recommendations to address the weaknesses in ASC, and is taking action to address them. The Council's investigation confirmed that financial governance weaknesses did not extend more widely across Council services, and the 2013/14 outturn and recent track record supports this</p>	<b>Amber</b>
<b>Financial control</b>	<p>The Council has overall an effective business planning and budget setting process, which includes consultation with stakeholders and rigorous review and challenge by Members on the information provided. Through the business planning process, the Council has a good understanding of its costs and performance and considers different ways of achieving savings through service redesign and activity monitoring to identify areas where services can be provided more effectively and efficiently.</p> <p>The Council has an effective Treasury Management strategy in place which is reported regularly to the Accounts and Audit Committee.</p> <p>The recent financial misreporting and overspend in CFW ASC highlighted a weakness in financial control in that directorate, but there is no evidence to suggest this extends more widely, and overall financial control in 2013/14 was good, as it has been in recent years.</p> <p>Internal Audit (IA) provide detailed and regular progress monitoring and assurance reports to the Audit Committee during the year. The annual IA report prepared at each year end summarises the overall findings on the work completed which forms part of the overall evidence supporting the Council's annual governance statement IA concluded in their IA Opinion for 2013/14 that the overall control environment at the Council operates to a satisfactory standard. A number of areas were identified where improvements in controls were identified and in such instances, improvement plans were produced to address recommendations.</p>	<b>Amber</b>

Theme	Summary findings	RAG rating
<b>Prioritising resources</b>	<p>Senior management and members work well together developing the Council's priorities and the 2 year Budget Plan, which is a key part of the Council's business planning. The Council is prepared to challenge the way services are delivered and to seek service transformation to deliver its key priorities within an increasingly tight financial envelope.</p> <p>Members provide sufficient and effective challenge and scrutiny.</p>	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	<p>The Council has a proven track record of delivering savings to contain expenditure within available resources. The Council has taken immediate action to resolve the emerging budget gap for 2014/15 in Adult Services and has outlined a range of additional in year savings and income measures which contribute to reducing the shortfall. It delivered its planned revenue underspend of £3.7m in 2013/14 despite having to take corrective action against the unplanned additional expenditure of £3.6m.</p>	<b>Green</b>

## 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

## Fees, non audit services and independence

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

### Fees

	Per Audit plan £	Actual fees £
Council audit	156,119	171,119
Grant certification	27,700	27,700
<b>Total audit fees</b>	<b>183,819</b>	<b>198,819</b>

As part of our external audit, we completed a forensic review of the Council's internal investigation into budget monitoring arrangements as a result of the unexpected overspend in Adult Services. The additional audit fee for this work was £15k.

### Fees for other services

Service	Fees £
nil	n/a

### 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 of audit matters to those charged with governance

International Standard on Auditing (ISA) 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 the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

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. 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 Audit Commission and includes nationally prescribed and locally determined work. 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.

	Audit Plan	Audit Findings
<b>Our communication plan</b>		
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		✓
Compliance with laws and regulations		✓
Expected 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

**Significant deficiency** – risk of significant misstatement

**Deficiency** - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Ensure and document that the Council's current arrangements for the revaluation of property, plant and equipment meet the requirements of the CIPFA Code.	M		
2	Reassess the value of its provision for business rateable value appeals as more information becomes available on levels of appeals being made and the success rate of appeals.	M		
3	Carry out close monitoring and regular reporting to confirm successful implementation of recommended actions to address weaknesses in ASC budget monitoring and management.	H		
4	Identify and approve recurrent savings in the revised MTFS to secure financial resilience in the medium term.	H		
5	Monitor closely and report on the additional cost savings measures during 2014/15 to minimise the calls on reserves	H		

# 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

### Opinion on the financial statements

We have audited the financial statements of Trafford Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and 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 2013/14.

This report is made solely to the members of Trafford Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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 Director of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Director of Finance 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, and for being satisfied that they 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 Director of Finance and the overall

presentation of the financial statements. In addition, we read all the financial and non-financial information in the foreword by the Director of Finance 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.

### 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 Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the foreword by the Director of Finance 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:

- give a true and fair view of the financial position of Trafford Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

### Opinion on other matters

In our opinion, the information given in the Foreword by the Director of Finance for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we report by exception

We report to you if:

in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;

## Appendix B: Audit opinion

- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

### **Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Respective responsibilities of the Authority and the 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 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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 arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those 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 2014.

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 had put in place proper arrangements to secure 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 published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Trafford Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

### **Certificate**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

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



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