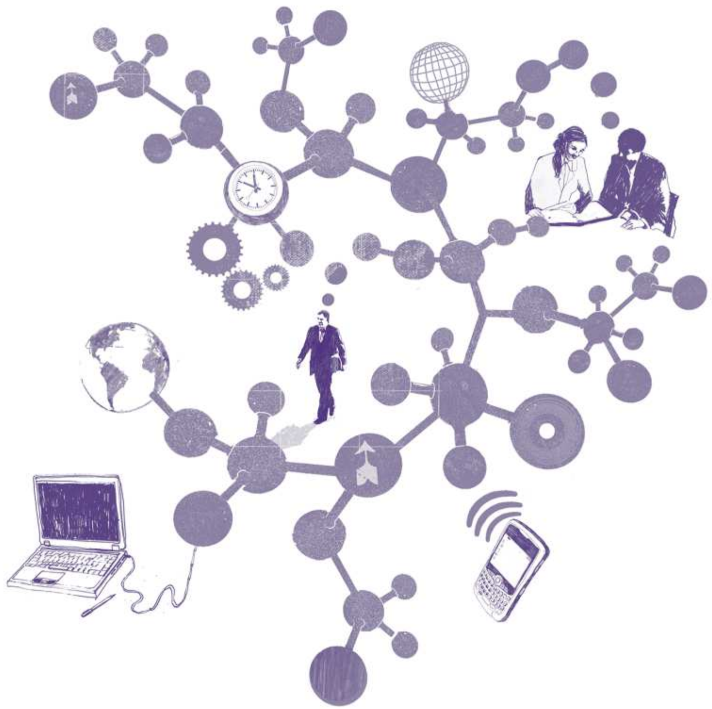
DRAFT

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.

# The Annual Audit Letter for Trafford Council

**Year ended 31 March 2014**

19 November 2014




**Mick Waite**
Director/Engagement Lead
**T** 0161 234 6347
**E** mick.j.waite@uk.gt.com

**Helen Stevenson**
Manager
**T** 0161 214 6354
E helen.l.stevenson@uk.gt.com

# Contents

# Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Trafford Council ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we presented at the Accounts and Audit Committee on 2 April 2014. The audit was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

| | |
|---|---|
| **Financial statements audit (including audit opinion)** | We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 25 September 2014 to the Accounts and Audit Committee. The key messages reported were:<br>• we received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable<br>• the draft accounts and working papers were of good quality, as confirmed by by our central technical team's initial review of the financial statements, and finance staff responded promptly to all audit queries<br>• we examined the provision for business rates appeals and discussed the detailed methodology. In our view the provision for unknown appeals (£20.5m) appeared very prudent, particularly in relation to estimates for unknown appeals expected in years 6 and 7 of the 2010 valuation list. We did not consider the value, however, to be materially misstated<br>• the audit did not identify any adjustments that affected the Council's reported financial position. We identified a number of amendments to correct classification errors and to enhance disclosures and presentation.<br>We issued an unqualified opinion on the Council's 2013/14 financial statements on 29 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council. |
| **Value for Money (VfM) conclusion** | We issued an unqualified VfM conclusion for 2013/14 on 29 September 2014.<br>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. Despite some weaknesses in budget monitoring arrangements in adult social care services mentioned later in this letter, the Council's overall corporate management arrangements and services outcomes were sufficiently robust to support an unqualified VfM conclusion. |

# Key messages

| | |
|---|---|
| **Whole of Government Accounts** | We reviewed the consolidation pack that the Council prepared to support the production of Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements. |
| **Certification of grant claims and returns** | We are currently reviewing the council's Housing Benefit subsidy claim, for which the certification deadline is 30 November 2014. |
| **Audit fee** | Our audit fee for 2013/14, excluding grant certification work and VAT, was £171,119. This was £15,000 more than our planned fee for the year, and the fee for 2012/13, which was £156,119. Further detail is included within appendix B. |

# Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2013/14 audit.

| No. | Issue and recommendation | Priority | Management response/ responsible office/ due date |
| --- | --- | --- | --- |
| 1. | The CIPFA Code of Practice on Local Authority Accounting for 2013/14 requires that "the items within a class of property, plant and equipment are re-valued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be re-valued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. Valuations shall be carried out at intervals of no more than five years."<br>The Council re-values land and buildings assets as a minimum every five years, but has no documented arrangements to show how it ensures that items within a class are re-valued simultaneously, or that revaluations of classes of assets are completed within a short period. We have confirmed that there is no evidence that valuations recognised in the balance sheet are materially different to their carrying fair value.<br><br>**Recommendation**: The Council should ensure and document that its current arrangements for the revaluation of property, plant and equipment meet the requirements of the CIPFA Code. | Medium | The interpretation and implementation of the Code of Practice with regard to the simultaneous revaluation of assets within the same class of assets, is subject to ongoing debate at a regional and national level between local government finance officers and CIPFA. The discussions are centred on the practicalities and resource implications of revaluing all assets within the same class over a time period which is only defined within the code as "a short period of time". The Council supports the spirit of the code in aiming to ensure that all classes of assets are not materially misrepresented, however either a change to the Code or further guidance on its practical implementation are awaited before action is taken. As valuations can take time to commission and complete, an ongoing open dialogue with the Council's auditors on this matter will also take place in order to avoid the issue arising in next year's audit.<br><br>Responsible officer: Finance Manager (Financial Planning)<br>Due date: ongoing |
| 2. | The Council included a £36.8m provision as an estimate of likely business rateable value appeals against current valuation office (VO) assessments (against the 31 March 2010 listing). This was made up of:<br>• £16.3m for those appeals received and not settled as at 31 March 2014 (known), and<br>• £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, whereas the previous 2005 list only ran for 5 years. | Medium | Given the significance of potential financial impact. The Council's approach to the calculation of the provision for appeals, provides a more stable platform for future financial planning. As recommended the Council agrees to keep under review the underlying data, assumptions and methods of calculation when estimating future provision levels. |

# Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2013/14 audit.

| No. | Issue and recommendation | Priority | Management response/ responsible office/ due date |
|---|---|---|---|
| 2 (cont) | We were satisfied that the methodology adopted and the value of the provision for known appeals was reasonable. We had reservations about evidence to support assumptions for unknown appeals that could potentially be received up until March 2017. The Council included a provision for £7.2m as an estimate for potential appeals received in years 6 and 7 that looks very prudent and is not well supported by evidence.<br><br>It is particularly difficult to predict appeals not yet received based on applying past data to current rateable values. Overall we were satisfied that the provision overall was materially correct, as we accept that there will be some appeals received for years 6 and 7.<br><br>**Recommendation**: The Council should reassess the value of its provision for rateable value appeals as more information becomes available on levels of appeals being made. | Medium | Responsible office: Finance Manager (Financial Planning)<br>Due date: Upon provision evaluation |
| 3 | There were serious weaknesses in arrangements to monitor and manage the budget within adult social care services (ASC), which involved some internal misreporting and late identification of an ASC service deficit of £3.7m for the year. 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 that the conclusions reached and recommendations made were reasonable. The Council has agreed an action plan to address the weaknesses identified.<br>**Recommendation**: The Council needs to monitor closely, and regularly report, progress to confirm successful implementation of recommended actions to address weaknesses in ASC budget monitoring and management. | High | A number of investigations and reviews have taken place which have included working closely with the Accounts and Audit Committee, the Council's external Auditors, and other independent experts. A wide range of actions have been determined which are in the process of being implemented. A formal reporting process has been instigated and updates on actions will be presented to Accounts and Audit Committee, Executive and the Corporate Management Team during the year.<br><br>Responsible office: Director of Finance<br>Due date: Various (as per agreed plan) |

# Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2013/14 audit.

| No. | Issue and recommendation | Priority | Management response/ responsible office/ due date |
|---|---|---|---|
| 4 | The internal misreporting and budget mismanagement reported above, resulted in incorrect assumptions for demand-led ASC services being built into the 2014/15 base budget. The extent of the potential budget gap was about £6.5m for 2014/15. So the Council was left with a significant challenge to achieve a balanced budget for 2014/15.<br><br>The Council has identified additional cost savings measures during 2014/15 to meet the potential budget. It also has put in place arrangements through the on-going revision to the medium term financial plan (MTFP), to identify and approve recurrent savings to secure the Councils medium term financial position<br><br>**Recommendations**:<br><br>The Council should monitor closely and report on the additional cost savings measures during 2014/15 to minimise the calls on reserves.<br><br>The Council needs to identify and approve recurrent savings in the revised MTFP to secure financial resilience in the medium term. | High | A realigned budget proposal for 2014/15 was agreed by Executive on 24th September 2014. The realignment consisted of<br><br>Additional in-year CFW Savings (2,500)<br>In-year savings across Council-Wide budgets (June 14 forecast) (568)<br>One off budget saving from Equal Pay Provision and proceeds of Urmston Town Centre (2,300)<br>Temporary increase in base budget met from General Reserve (1,582)<br>**(6,950)**<br><br>The additional savings proposals of a minimum of £2.5m within CFW are being monitored within the current arrangements, with updates being reported on a monthly basis to the Transformation Board and summaries covered within the period monthly monitoring reports presented to Executive and Council. The full effect of the budget pressures relating to demand led services within ASC has been included within our medium term financial plans and recurrent savings have subsequently been proposed within our draft budget proposals for 2015/16 which are currently being consulted on.<br><br>Responsible officer: Head of Financial Management<br>Due date: Ongoing (according to agreed monitoring timetables) |

# Appendix B: Reports issued and fees

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

### Fees

| | Per Audit plan £ | Actual fees £ |
|---|---|---|
| Audit Fee | 156,119 | 171,119 |
| Grant certification fee | 27,700 | 21,284 |
| **Total fees** | **183,819** | **192,403** |

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.

The 'actual' grant certification fee is estimated, based on the latest indicative fees published by the Audit Commission.

Within the £21,284 actual fees, there is additional fee of £1,470 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for metropolitan borough councils and is subject to agreement by the Audit Commission.

### Fees for other services

| Service | Fees £ |
|---|---|
| nil | n/a |

### Reports issued

| Report | Date issued |
|---|---|
| Audit Plan | April 2014 |
| Audit Findings Report | September 2014 |
| Certification report | To be issued when our work on grants is completed. |
| Annual Audit Letter | October 2014 |

DRAFT