



Annual Audit Letter

Year ending 31 March 2018

Trafford Council

September 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Trafford Council (the Council) and its subsidiary (the group) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Accounts & Audit Committee as those charged with governance in our Audit Findings Report on 30 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £8,150,000, which is 2% of the Council's 2016/17 gross revenue expenditure (group materiality £8,321,000, 2% of 2016/17 group gross revenue expenditure).
Financial Statements opinion	We gave an unqualified opinion on the financial statements on 26 September 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 26 September 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Accounts & Audit Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Trafford Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial accounts and annual reporting

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
27 September 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council and group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group accounts to be £8,321,000, which is 2% of the group's 2016/17 gross revenue expenditure. We determined materiality for the audit of the Council's accounts to be £8,150,000, which is 2% of the Council's 2016/17 gross revenue expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality of £13,760 for senior officer remuneration, based on 2% of total senior officer remuneration (including pension contributions). This item merits a lower materiality than financial statement level materiality due to being of particular interest to the public.

We set a lower threshold of £407,000, above which we reported errors to the Accounts & Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts and the narrative report and annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and group and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Council and group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work did not identify any evidence of management over-ride of controls. In particular, the findings of our review of journal controls and testing of journal entries did not identify any significant issues.</p>
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its land and buildings over a five year period to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work Assessed the competence, expertise and objectivity of any management experts used Discussed with the valuer the basis on which the valuation is carried out and challenge the key assumptions Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding Tested revaluations made during the year to ensure they are input correctly into the Council's asset register Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>Our audit work did not identify any significant issues.</p>

Audit of the Accounts

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none">• Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement• Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out• Undertaken procedures to confirm the reasonableness of the actuarial assumptions made• Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.	<p>Our audit work did not identify any significant issues.</p>

Other issues

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

1	Issue	Commentary	Conclusion
	<p>Valuation of inverse floating Lender Option Borrower Option Loan.</p> <p>The Council took out an inverse floating Lender Option Borrower Option (LOBO) loan for a total value of £20m in 2011.</p> <p>The Authority has in its financial statements made a critical judgement regarding the accounting treatment and valuation of this loan during the year.</p> <p>We therefore identified the valuation and accounting for inverse floating LOBO loans as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>During the year guidance has been issued by the National Audit Office and clarifications have been made by CIPFA in relation to the accounting for LOBO loans with inverse floater (or similar terms).</p> <p>We have engaged with the Finance team during 2018 to understand the accounting treatment and valuation method used by Trafford Council regarding this loan.</p> <p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> • assessing management's processes and assumptions for identifying critical judgements; • gaining an understanding of the processes and the controls put in place by management to ensure that the loans were not materially misstated and evaluating the design of the associated controls • evaluating the competence, capabilities and objectivity of management experts used in the valuation of the loans • discussing with management the basis on which the valuation was carried out, including advice received from treasury management advisers; • evaluating and challenging the reasonableness of the critical judgements and significant assumptions used by management and their expert in valuing and accounting for the loans. <p>The Authority has made a critical judgement regarding the accounting treatment and valuation its inverse floating LOBO loan, determining the valuation of this loan during the year to be in accordance with International Accounting Standard (IAS) 39 Auditor Guidance note 7.</p> <p>This has been a protracted process and has involved technical advice being received by the Council from its Treasury Management Advisors, and by ourselves as your auditors through our in-house financial instruments technical experts.</p>	<p>The Council has provided us with additional information regarding the nature of the contract and this has impacted on our view of the accounting treatment and method of valuation.</p> <p>There are various options for valuing such loans under IAS 39, using Auditor Guidance note 7, as preferred by the Council or using Auditor Guidance note 8. The latter potentially has a significant impact on the Council's revenue position and reserves.</p> <p>There have been differing views as to the interpretation of the relevant accounting treatment during the past months around the interpretation of the accounting standards.</p> <p>Since the Accounts and Audit Committee meeting on 30 July 2018 the firm has now taken external advice on the inverse LOBO accounting treatment and has concluded:</p> <ul style="list-style-type: none"> - Whilst the firm's preferred route continues to be AG8, we acknowledge that AG7 is also a permissible route - On this basis, we will not be proposing any amendments to the primary financial statements - We do however feel It is important that the accounts include appropriate disclosure around the basis of the judgement made by the Council (to account for LOBO's under AG7 which we believe to be a critical judgement). <p>We concluded that we have obtained sufficient audit assurance to conclude that:</p> <ul style="list-style-type: none"> • the basis of the accounting for inverse floating LOBO loans and the assumptions and processes used by management in determining the valuation were reasonable; and, • the valuation of the Authority's inverse floating LOBO loans disclosed in the financial statements are reasonable. <p>The Authority has added some additional disclosures into the financial statements to clearly describe the critical judgements they had made in this respect. These were added in note 18 to the financial statements</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the financial statements on 26 September 2018, which was after the national deadline of 31 July 2018.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Accounts and Audit Committee on 30 July 2018. Our opinion was delayed due to our consideration of matters arising from the Council's treatment of an element of its "LOBO" loan holdings in the financial statements of the Council. This matter was resolved and an unqualified opinion was given.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which did not identify any issues on 26 September 2018.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not exercise any of these powers during the audit.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Trafford Council in accordance with the requirements of the Code of Audit Practice. We did this on 26 September 2018.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

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 2018.

Value for Money conclusion

Key Value for Money Risks

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

Value for Money conclusion (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
		<p>Savings measures are identified within service areas with support from the Transformation support team. Delivery is monitored through monthly reporting to the Senior Leadership Team in service areas. The Transformation Board also receive monthly reports on savings and this informs the overall position reported in Budget Monitoring reports to the Executive committee. Performance against the Council's Annual Delivery Plan, including key performance outcomes against the Vision for Trafford 2031 outcomes, are reported quarterly to Executive.</p> <p>The Council has arrangements in place for the implementation of its investment strategy to promote economic development and regeneration and as part of the Council's budget strategy. This includes the appointment of investment advisers to assist in the implementation of the strategy and identification of investment opportunities. An Investment Management Board is also in place to oversee investment decisions and undertake a performance management role. Investment commitments currently total £179 million, of which £58 million has been spent to date out of the £300 million investment fund available. Investments include the Council's work with partners as part of the University Academy 92 (UA92) project and the acquisition of the Grafton Centre in Altrincham to contribute to the Council's regeneration objectives, and debt financing to support residential developments.</p> <p>We are satisfied that the Council has appropriate arrangements in place .</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	March 2018
Audit Findings Report	July 2018
Annual Audit Letter	September 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council and group audit	118,192	118,192	118,192
Housing Benefit Grant Certification	15,963	TBC	11,498
Total fees	134,155	TBC	129,690

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

Fees for non-audit services

Service	Fees £
Audit related services	
Teachers Pensions Return	TBC
Non-Audit related services	
CFO insights licence	12,500

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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