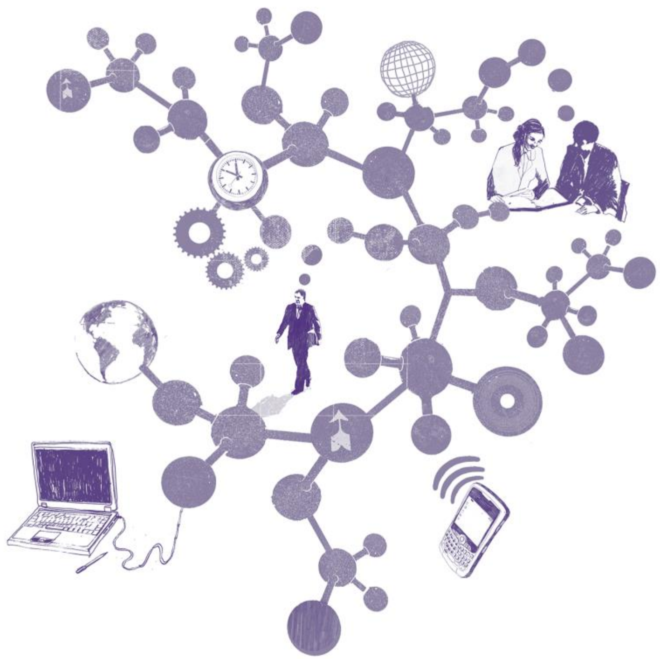
The Audit Findings for Warrington Borough Council

Year ended 31 March 2015

September 2015



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Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Warrington Borough Council's (the Council) financial statements for the year ended 31 March 2015. 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 UK&I).

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 and 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 made a small number of changes to our planned audit approach, which we communicated to you in our Audit Plan issued in March 2015. These relate to our audit approach in respect of welfare expenditure, group accounts and schools. Further details are set our in Section 2 of this report.

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

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

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 in respect of the financial statements on the 28th September 2015.

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

- the Council provided good quality working papers at the start of the audit and additional working papers were provided when required
- the audit has identified one material misstatements which management has agreed to amend. This relates to the accounting requirements for IAS19 costs, and 6 other misstatements that has been corrected. We have also agreed some amendments to improve the classification and disclosure of the notes to the accounts
- we identified one unadjusted misstatement which if amended would have increased gross expenditure by £0.589m and two unadjusted disclosure errors.

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

Value for Money conclusion
We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

The Council continues to demonstrate good financial performance despite the financial and demographic pressures facing Local Government and has sound financial governance arrangements and financial controls in place. The Council has delivered £76.8m savings by constantly challenging the way it delivers its services. Looking ahead over the next four years the Council needs to achieve budgetary savings of £48.8m if it is to achieve a balanced budget.

The Council engages well with stakeholders and local residents to ensure that its resources are being prioritised in the areas that matter most. The Council understands its costs which enables it to make informed decisions based on accurate information to drive its Corporate Strategy.

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

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

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

Findings
Our work has not identified any significant control weaknesses which we wish to highlight for your attention. We have commented on a minor weakness identified in respect of the process for valuing the Council's assets, which is covered in more detail in Section 2.

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 and Information Services.

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 Information Services 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.

Grant Thornton UK LLP
September 2015

Section 2: Audit findings

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 the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Corporate Governance Committee on 19th March 2015. 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

A number of changes have been made to our Audit Plan, previously communicated to you on 19th March 2015:

- **We have re-classified our assessment of risk associated with the welfare benefits system**

  Our walkthrough of the welfare benefits system in 2014/15 has not identified any additional inherent material risks other than those created by the overall size of expenditure and magnitude of transactions. This expenditure is subject to a very tight control environment. We are satisfied that this expenditure system does not represent a reasonably probable risk of material mis-statement to the Council's financial statements. We decided therefore to seek assurance for our opinion by testing a reduced sample of welfare expenditure together with testing of the reconciliation between the welfare benefits system, the ledger and the subsidy claim, ensuring the system has the correct calculation parameters input and completing a detailed analytical review. The normal detailed testing of individual claims will be completed for the purpose of certification of the Council's housing subsidy claim.

- **Approach to Group Accounts**

  The Audit Plan referred to the fact that officers were assessing the extent and nature of the Council's interest in partner bodies connected with the Council, following revisions to the accounting standards relating to group accounts. The Council subsequently decided not to consolidate the accounts of Warrington Borough Transport or other partner bodies with the Council accounts. As a result there is no longer a requirement to undertake a group audit, as originally envisaged in our audit plan.

- **Accounting treatment of balances and transactions pertaining to schools**

  Our audit approach has been extended to cover the impact of the Council's decision to recognise non-current assets relating to voluntary-aided schools on the Balance Sheet and the requirements set out in the CIPFA Code in relation to the consolidation of schools transactions and balances within the Council's primary financial statements.

Audit opinion

Our proposed 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 (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards. 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, after considering the risk of improper revenue recognition we rebutted the risk on the basis that there was insufficient evidence of an incentive to manipulate revenue recognition, limited opportunities to improperly recognise revenue to a material extent and a prevailing culture within the Council which does not tolerate fraud. Details of the work undertaken in relation to the other significant risks are set out below.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Management override of controls** Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls	We have undertaken the following work in relation to this risk: • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions	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. We set out later in this section of the report our work and findings on key accounting estimates and judgments.
2.	**Accounting for loans to third parties** In our 2014-15 audit plan we highlighted as a significant risk the Council's plans to make material loans to third parties. These loans were considered to be a significant risk as such transactions are outside the Council's normal course of business.	We have undertaken the following work in relation to this risk: • reviewed the accounting treatment and disclosures to identify whether it is consistent with our expectations based on the Code and relevant IFRS • agreement of balances to 3rd party confirmations.	Our audit work focused on the accounting treatment associated with the loans and obtaining third party, agreeing the terms to supporting evidence and verification for the outstanding balance at year end. We have not identified any significant issues in relation to the risk identified. We are satisfied that the accounting treatment is appropriate and that the terms and amounts disclosed within the accounts are correct.

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
Operating expenses	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • used computer assisted audit techniques to identify and test creditors which might have been omitted from the accounts; • reviewed in-year and post year-end payments to identify whether or not the underlying transactions have been accounted for in the correct financial year; • undertook testing significant accruals.	Our audit work on payments made after the year end identified a number of invoices relating to capital expenditure to the value of £3.227m which related to capital expenditure incurred in 2014/15 but paid for in April and May 2015. These should have been included as capital additions as at 31 March 2015 and shown as a creditor. Management have amended the accounts for the capital creditors. There was also an unadjusted misstatement in respect of revenue creditors. This is covered in more detail on pages 19 and 21. Other than this issue our audit work has not identified any additional significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated	We have undertaken the following work in relation to this risk: • documented our understanding of the process and identified controls relevant to this transaction cycle • completed a walkthrough to confirm implementation of those controls • sample testing of payroll calculations and contracts of employment including senior officer remuneration • reconciliation of monthly payroll totals to the ledger • confirming that the accounts incorporate 12 month pay runs; and • completing a trend analysis identifying any significant fluctuations in pay costs during the year to discuss with management.	Our audit work demonstrated that expenditure per the payroll system was reflected in the general ledger and where month- on- month variances were identified satisfactory explanations were obtained. In addition our testing included looking at a sample of 12 payroll transactions: • confirming employee recruitment and that any changes to terms were authorised by appropriate authorised signatories • employee grade was traced to employee HR file, and any increment and progression agreed to relevant WBC payscale • monthly salary recalculated and all additional payments (e.g. expenses, sick pay) traced to supporting documentation and recalculated • confirmed employee employed by the Council including tracing to website, intranet, receiving confirmation from headteacher (e.g. schools) • confirmed coding in SAP appropriate for employee role Our audit work has not identified any significant issues in relation to the risk.

Significant matters discussed with management

	Significant matter	Commentary
1.	During 2014/15 the Council transferred adult social care services to Catalyst Choice Community Interest Company (CIC). As a result 317 staff transferred to the CIC on 1/2/2015, however, the Actuary was not notified of the transfer of staff with regards to the calculation of the Council's IAS 19 pension liability as at 31/3/2015. Consequently the figures for the Council's pension liability included the 317 staff.	We are satisfied that there is unlikely to be a material impact to the Council's IAS 19 figures due to the small numbers of staff involved. Additionally the Council as part of its arrangement with Catalyst agreed that it will continue to be responsible for the accrued pension liability associated with the transferred staff up to their point of transfer. This arrangement is similar to the arrangements in place for previous staff transfers arrangements. Management have agreed to confirm in the Letter of Representation that the Council remains responsible for the accrued liability as we have been unable to verify this.
2.	During the year the Council added 35 Voluntary Aided (VA) schools on to the Council's balance sheet. Under IFRS 10 the schools are entities in their own right, and the Council determined that the schools as entities received all of the benefits for the school buildings, and should therefore be included on the Council's balance sheet.	We have had on-going discussions throughout the year with officers during the year regarding the accounting treatment associated with this decision. We are satisfied that the rationale for the Council's judgement is supported by evidence from management and the principles set out in the relevant accounting standards.

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
Revenue recognition	Accounting Policies Note 1.2 states that the activity is accounted for in the period to which it relates regardless of when the cash is paid or received.	The recognition of revenue by the Council is in line with recognised accounting guidance and in line with CIPFA's recommended approach.	●
Estimates and judgements	Key estimates and judgements include: • useful life of capital equipment • pension fund valuations and settlements • revaluations • Impairments • NNDR provision • PPE valuations.	• We have reviewed the estimates and judgements made in the accounts as part of our work with no matters arising. • We have sample tested valuations undertaken in the year to confirm they are appropriately included in the statement of accounts. • We have confirmed the entries relating to the pension scheme in the accounts agree through to the actuarial valuation. We have considered the qualifications of and the work completed by the actuary to ensure we can place reliance upon the their work. • The Council's accounting policies for key estimates and judgements are appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code).	●

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed your assessment of your financial position and are satisfied with managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements.	●
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention. The Council has expanded accounting policy 1.33 to reflect the Council's position in respect of voluntary aided schools.	●

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

Other communication requirements

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

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have discussed the risk of fraud with the Audit and Corporate Governance Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A letter of representation has been requested from the Council. • In particular, representations have been requested from management in respect of: - the arrangement with Catalyst CIC and other similar organisations, whereby for staff transferring out of the Council, their past pension service deficit remains with the Council; and - that the Council is not aware of any material bank balances held by schools which have not been disclosed within the statements.
4.	**Disclosures**	• A number of minor presentational amendments have been made to improve the clarity of the financial statements. The key changes are summarised on pages 20-21.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Confirmation requests from third parties**	• We obtained direct confirmations from banks for confirmation of the year end bank balance . The requests were returned with positive confirmation.

Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 10 above.

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

	Assessment	Issue and risk	Recommendations
1.	●	**Revaluation programme for PPE** There had been some slippage in the programme for revaluing assets during 2014/15. This included 72, property, plant and equipment assets with a total value of £ 3.176m and 60 investment properties with total value £2.204m, all of which had been programmed to be valued in 2014/15, but will now be done next year. We are satisfied that asset values are materially correctly stated, having applied the percentage change in asset values of similar revalued assets to those assets not valued in 2014/15. It is important that these assets are valued next year to ensure compliance with CIPFA's Code requirements.	• Ensure the programme for valuing assets is adhered to and that those assets not valued in 2014/15 as expected, are valued in 2015/16.
2.	●	**IT controls** Our Business Risk services department undertook a detailed review of the configuration of SAP, the Council's main accounting system. This identified that some users had considerable access to the system which was, in some cases, perceived to be excessive. Excessive system access can lead to segregation of duties conflicts if adequate compensating controls are not in place.	• We have received a comprehensive response to our findings and a timetable has been agreed to address this issue.

Assessment

● Significant deficiency – risk of significant misstatement

● Deficiency – risk of inconsequential misstatement

Internal controls – review of issues raised in prior year

	Issue and risk previously communicated	Update on actions taken to address the issue
1.	**Accounting for Recharges** Local Authorities are required to exclude internal recharges between departments from the Gross Income and Gross Expenditure reported in the Comprehensive Income and Expenditure Statement. This year the Authority revised its approach to making these adjustments. However, the approach adopted did not identify all recharges which led to Gross Income and Gross Expenditure being overstated by a material amount. We understand that management are reviewing their approach so that they can identify all recharges in 2014/15.	Similar issues were identified during our audit of the financial statements this year. It remains critical that the Council maintains tighter controls over how recharge codes are used. As part of the final accounts closedown process checks should be undertaken to ensure balances are correctly stated.
2.	**IT Control Environment** As part of our planned programme of work, our information system specialist team undertook a high level review of the general IT control environment at the Council. This was undertaken as part of the review of the internal controls system. We are pleased to report that no significant issue arose from our work, however we identified a small number of minor areas where the Council's existing IT arrangements can be developed further, including: •Management should consider removing processes that run on the DDIC account and ensure that the account is locked. •Management should ensure that access to customisable tables within SAP and the facility to run custom programs is appropriately restricted. SAP users with responsibilities for programming should also not have access to live data. •Managements should ensure an appropriate mechanism is in place to ensure that users accounts within the Academy system used by the Revenues and Benefits department are disabled after members of staff have left. •Management should review the number of staff using the Academy system who have privileged access and confirm that all staff assigned privileged access require this level of access to perform their role.	Management have satisfactorily addressed all of the issues raised last year.

Adjusted misstatements

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

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

	Detail	Comprehensive Income and Expenditure Account	Balance Sheet
1	The calculation of the provision for NNDR appeals had been incorrectly based on Valuation Office data from the previous financial year. Management have recalculated the provision based on the latest data. The impact being that the provision has increased by £1.761m, Warrington's share being 49% (£0.861m). Notes 6,11,31,35,38 and the Cash Flow Statement have been correctly amended for this amount. The Collection Fund closing balance for the year has reduced by £1.761m to reflect the increase in the provision.	Taxation and Non specific grant income – £0.861m (WBC 49% share of the total provision)	Current Liabilities Provisions +£0.861m
2	School bank balances overdrawn totalling £1.624m had been netted off cash on hand and balances with banks (Note 29), rather than being shown separately as a liability on the balance sheet.	None	Cash and cash equivalents (current assets) overstated by £1.624m Cash and cash equivalents (current liabilities) understated by £1.624m

Adjusted misstatements continued

	Detail	Comprehensive Income and Expenditure Account	Balance Sheet
3	Impairments charged to the Comprehensive Income and Expenditure Account (CIES) had been overstated as a result of incorrect accounting treatment adopted when revaluing assets associated with the Woolston Learning Village re-development. Movement in Reserves Statement, Cash Flow Statement and all relevant notes have been amended to correct this error.	Impairments charged to the Comprehensive Income and Expenditure Account reduced by £6.411m. Revaluation Gains on Non-Current Assets recognised in Other Comprehensive reduced by £6.411m	Balance on Revaluation Reserve overstated by £6.411m and balance on Capital Adjustment Account understated by £6.411m
4	Review of the accounting treatment in relation to capital grants, identified a discrepancy relating to schools which had led to the overstatement of income and expenditure. When schools make a contribution to the costs of a capital scheme this had been incorrectly treated as schools expenditure. The agreed amendment ensures that where dedicated schools grant is used to contribute to capital expenditure this is credited directly to capital contributions as part of taxation and non specific grant income, previously this income had been charged to children and education services income.	Children and Education Services Income and Expenditure - £1.597m	None
5	Review of the accounting entries relating to the IAS 19 identified that the split in the CIES between the amount charged to Net Cost of Services and the amount charged to Other Comprehensive Income was incorrect. The difference is £57.770m. This is a classification error and has no impact on the overall financial position of the Council. Movement in Reserves Statement, Cash Flow Statement and relevant notes have been correctly amended for this amount.	Other Comprehensive Income and Expenditure +£57.770m Financing and Investment Income and Expenditure - £57.770m	None

Adjusted misstatements continued

	Detail	Comprehensive Income and Expenditure Account	Balance Sheet
6	Testing of a sample of April and May expenditure payments for cut off identified that capital additions recorded in the Balance Sheet as at 31 March 2015 were incomplete. After reviewing all payments made in relation to capital expenditure in April and May, we concluded that a significant number of invoices relating to 2014/15 capital expenditure had been posted to the 2015/16 financial year, and had not been appropriately accrued. The total value of the understatement of capital additions was £3.227m. Adjustments have been made to the Balance Sheet and relevant notes to correct this error.	No Impact	Property Plant and Equipment and Creditors understated by £3.227m
7	Our work on grants and contributions identified that management had accounted for a contribution to the cost of adult social care from the children's social care department as income to the Council. This is the incorrect treatment and consequently Children and Education Services Gross Income and Children and Education Services Gross Expenditure are overstated. The Comprehensive Income and Expenditure Account and relevant supporting notes have been amended to correct this error.	Children and Education Services Gross Income - £0.678m Children and Education Services Gross Expenditure - £0.678m	None

Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Audit and Corporate Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Account	Balance Sheet	Reason for not adjusting
1	Our testing of April and May payments identified six invoices which had been accounted for in 2015/16 which related to 2014/15 expenditure, and had not been appropriately accrued. Management have decided not to amend for these transactions on the basis of immateriality	Gross Expenditure understated by £0.589m	Creditors understated by £0.589m	Error judged to be immaterial to the financial statements
	Overall impact	**£0.589m**	**£0.589m**	

Adjusted misclassifications & disclosure changes

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

	Adjustment type	Value £m	Account balance	Impact on the financial statements
1	Disclosure	1.456	Note 18 – Amounts Reported for Resource Allocation Decisions	Employee Expenses line in Note 18 did not include all payroll expenditure processed through the payroll system. Employee expenses were understated by £1.456m and other service expenditure overstated by the same amount.
2	Disclosure	4.912	Collection Fund – Note 2	The figure included in the Collection Fund Note 2 for the aggregate rateable value was incorrectly disclosed. The original figure was £251.912m and the correct figure being £256.824m.
3	Disclosure	7.554	Note 33 – Operating Leases – Council as Lessor	Note 33 - Operating Leases where the Council is the lessor was incorrectly stated for leases rolled over regularly. The correct figure being £1.455m not £9.004m.
4	Disclosure	4.375	Note 33 – Operating Leases – Council as Lessee	Note 33 - Operating Leases where the Council is the lessee had incorrectly included a number of leases where the Council was landlord and lessee. The effect of this was that the disclosure note was overstated by £4.375m in 2014/15 and the comparative figures for 2013/14 £4.421m.
5	Disclosure	0.925	Notes 9 –Other Operating Expenditure Note 12 – Material Items of Income and Expense	Notes 9 and 12 disclosure the loss on disposal of Bridgewater High School as the school transferred to Academy status. The loss was overstated by £0.925m based on the loss not having been calculated on the Net Book Value.

Adjusted 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 £m	Account balance	Impact on the financial statements
6	Disclosure	2.244	Note 19 – Dedicated Schools Grant	Note 19 discloses the dedicated schools grant received by the Council for 2014/15. The figure was overstated by £2.244m.
7	Disclosure	n/a	Collection Fund – Note 2	Note 2 has been expanded to include reference to the Council's involvement in a business rates pooling agreement with two neighbouring authorities.

Unadjusted misclassifications & disclosure changes

The table below provides details of the unadjusted misclassification and disclosure changes identified during the audit..

	Adjustment type	Value £m	Account balance	Impact on the financial statements
1	Disclosure	1.303	Note 36 Financial Instruments – Categories of financial instruments (Creditors)	Our testing found that the Council could not substantiate the reason for excluding £1.303m in respect of creditor balances with other public sector bodies, some of these balances are highly likely to meet the definition of a financial instrument.
2	Disclosure	7.013	Note 36 Financial Instruments – Categories of financial instruments (Debtors)	Our testing found that the Council could not substantiate the reason for excluding £7.013m in respect of debtor balances with other public sector bodies, some of these balances are highly likely to meet the definition of a financial instrument.

Section 3: Value for Money

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

We have summarised the findings from our work within a separate report on our Value for Money conclusion work, which was issued to the Council in August. We summarise the main findings of the report here.

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.

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.

Our work on financial resilience has concluded that the Council has sound financial governance arrangement and financial controls in place, despite continuing to operate in a very challenging financial environment. The framework of sound financial management should assist the Council in managing the significant financial challenges that are likely to be faced over the next three to four years.

The Council continues to demonstrate good performance against key indicators. During 2014/15 the Council successfully met its efficiency target of £16.2m, which given the current public sector climate is a significant achievement. The Council also delivered an underspend for 2014/15 of £0.195m.

The Medium Term Financial Strategy (MTFS) is clearly set out and reflects information from other relevant areas of the business. It takes into account the current national political and economic environment and the local context. This year the Council has adopted a more strategic approach to its budgeting through the introduction of Outcome Based Budgeting (OBB). The OBB approach ensures that all of the Council's budgets are aligned to key outcomes that reflect Council priorities.

Our review of the arrangements around monitoring and governance of the

Value for Money

Council's major capital schemes found that suitable arrangements exist, and that programme delivery was routinely reported. It remains important however, that this level of reporting and challenge is maintained so that members can obtain assurances around deliverability and that governance arrangements exist.

Going forward, over the next four years the Council must achieve budgetary savings of £48.8m if it is to achieve a balanced budget, and like all other councils is likely to face some very challenging times.

As part of the capital strategy the Council has during 2014/15 provided £33.75m worth of loans to registered providers and other third parties and has recently raised £50m as part of its recent bond issue. The Council is leading the way to support its objectives, however, the extent of these activities does increase the Council's exposure to risk and it remains important that the Council continues to assess the risks involved in its arrangements.

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.

The Council engages well with stakeholders and local residents to ensure that its resources are being prioritised in the areas that matter most. It continually challenges the way it delivers its services driving out any inefficiencies, whilst continuing to provide services to the residents of Warrington.

The Council is looking at new delivery models and efficient ways of delivering services. Recent examples include the creation of Catalyst CIC, a new social enterprise, to deliver adult social care in a new and flexible way, establishing Livewire and Culture Warrington, and the forthcoming Internal Audit shared service arrangement with Salford City Council.

The Council understands its costs which enables it to make informed decisions based on accurate information to drive its Corporate Strategy.

Regular and detailed budget monitoring also ensures that the latest available information is available to be used to assess how well placed the Council is deliver its efficiency targets and income and expenditure targets.

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 has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

Section 4: Fees, non-audit services and independence

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	169,550	169,550
Grant certification on behalf of Audit Commission	22,230	10,202*
Total audit fees	**191,780**	**179,752**

* There was an error in our original audit plan concerning the audit fees. The actual fees stated above corrects that error

Fees for other services

Service	2014/15 Fees £	2015/16 Fees £
Non audit related services		
- Teachers Pension return	4,200	
- 20:20 Vision	-	4,500
- ICMA comfort work on bond issue	-	40,000
- review of bond finance offer	-	2,100

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 Financial Reporting Council'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

Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) 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).

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.

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

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Introduce processes that ensure that post year end payments are posted to the correct financial period.	High	Agreed	Finance Managers for respective Directorate and capital support Closure dry run at Quarter 3 (December 2015) and ongoing through to closure deadlines.
2	Ensure where there are any significant transfers of staff out of the Council that the Actuary is notified, so that IAS19 calculations reflect the correct staff numbers.	Medium	Agreed	Corporate Finance Team February 2016
3	Ensure the programme for valuing assets is adhered to and that those assets not valued in 2014/15 as expected, are valued in 2015/16.	Medium	Agreed	Property and Estates Service Manager Included September 2015 for valuations to take place before 31 March 2016
4	Maintain tighter controls over how recharge codes are used. As part of the final accounts closedown process checks should be undertaken to ensure balances are correctly stated.	Medium	Agreed	Corporate Finance Team with Schools Team Quarter 3 (December 2015) and from October 2015 to establish new process for April 2016
5	Revise the existing process for determining which debtor and creditor balances meet the definition of a financial instrument to ensure that balances relating to a contract with other public sector bodies are treated appropriately.	Medium	Agreed	Corporate Finance Team February 2016

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WARRINGTON BOROUGH COUNCIL

We have audited the financial statements of [name of client] for the year ended 31 March 2015 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, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Warrington Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, 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 also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword [and the annual report] 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 Warrington Borough Council as at 31 March 2015 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 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword 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 are required to 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; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a 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 in October 2014.

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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, 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 2015.

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 2014, we are satisfied that, in all significant respects, Warrington Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

We certify that we have completed the audit of the financial statements of [name of client] in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Robin Baker,

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

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