

# The Annual Audit Letter for St Helens Metropolitan Borough Council

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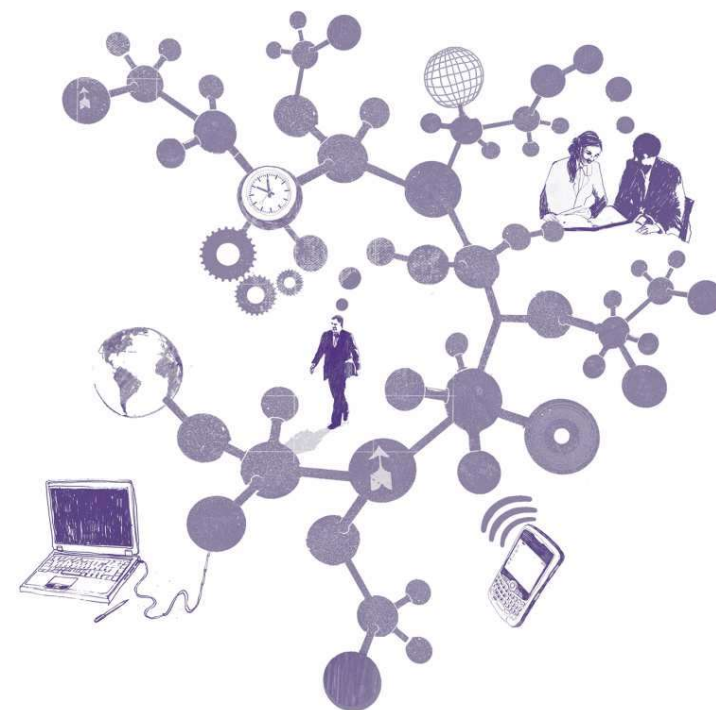
**Year ended 31 March 2016**

21 October 2016

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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at St Helens Metropolitan Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its 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 (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit & Governance Committee as those charged with governance in our Audit Findings Report on the 19 September 2016.

## **Our 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'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's financial statements we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We issued an unqualified opinion on the Council's financial statements on 27<sup>th</sup> September 2016. The accounts were prepared to a good standard and we did not identify any adjustments affecting the Council's expenditure or level of useable reserves.

### **Value for money conclusion**

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit report issued on 27<sup>th</sup> September 2016.

### **Whole of government accounts**

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 27<sup>th</sup> September 2016.

### **Certificate**

We certified that we had completed the audit of the accounts of St Helens Metropolitan Borough Council in accordance with the requirements of the Code on 27<sup>th</sup> September 2016.

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### **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 2016. We will report the results of this work to the Council's Audit & Governance Committee in our Annual Certification Letter.

### **Looking ahead**

The Council delivered its planned savings in 2015/16 and has begun a process of change by reorganising and streamlining its structure. There is a clear investment framework and strategy as it moves towards its vision for 20:20. Good progress is being made with the redevelopment of the former Parkside Colliery and the first stage of the West Point leisure and retail site is complete.

The Council acted decisively during the year to respond to the financial pressures affecting the health economy locally and there is a strong working relationship with the CCG. Progress is being made with the move towards an Integrated Care Model for St Helens. It is important the Council continues to drive forward its change agenda over the coming year.

### **Working with the Council**

During the year we have met regularly with the Chief Executive and senior leadership team. We have hosted a number of training workshops for Local Authorities including technical updates, early closure of accounts workshops and housing benefits training workshops which were well attended by officers from St Helens Council. We have continued to share the firm's national publications and provide thought leadership in emerging issues that impact on the public sector.

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**  
**October 2016**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts we use the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 our audit of the Council's accounts to be £8.273 million which is 1.9% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of materiality for certain areas such as cash and senior officer remuneration, related party transactions and audit fee.

We set a lower threshold of £436,000 above which we reported errors in our Audit Findings Report to the Council's Audit & Governance Committee.

### **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 Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- 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 Narrative Report and Annual Governance Statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

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

Our audit approach was based on a thorough understanding of the Council'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 of St Helens Metropolitan Borough Council

These are the 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
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at St Helens Metropolitan Borough Council we have determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including St Helens Metropolitan Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p><b>We did not identify any issues to report in respect of revenue recognition within the financial statements.</b></p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p> <p>.</p>	<p>As part of our audit work we have :</p> <ul style="list-style-type: none"> <li>• reviewed the journal control environment and not identified any significant control weaknesses;</li> <li>• tested key journal entries and not found any items which impacted on our opinion;</li> <li>• reviewed the accounting estimates, judgements and decisions made by management; and</li> <li>• reviewed any unusual, significant transactions and not identified anything which would impact on our opinion.</li> </ul> <p><b>Our audit work did not identify any evidence of management over-riding controls. In particular, the findings of our review of journal controls and testing of journal entries did not identify any significant issues.</b></p>
<p><b>Review of significant accounting estimates, in particular provision for equal pay claims</b></p> <p>By their nature the size of provisions are more uncertain than most items of account . Our work considered the expenditure required to settle the present obligations as required by IAS37.</p>	<p>As part of our audit work we have :</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate;</li> <li>• reviewed of the competence, expertise and objectivity of management's approach;</li> <li>• reviewed of the calculations for accuracy and reasonableness; and</li> <li>• tested the completeness of the model used.</li> </ul> <p><b>We did not identify any issues to report. We were satisfied that the method used to estimate the provision for settling the equal pay claims was reasonable.</b></p>

# Audit of the accounts

These are the 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
<b>Valuation of property, plant and equipment</b> The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	<p>As part of our audit work we:</p> <ul style="list-style-type: none"><li>• reviewed management's processes and assumptions for the calculation of estimates;</li><li>• reviewed the competence, expertise and objectivity of any management experts used;</li><li>• reviewed the instructions issued to valuation experts and the scope of their work;</li><li>• reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding;</li><li>• tested the revaluations made during the year to ensure they were input correctly into the Council's asset register; and</li><li>• evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.</li></ul> <p><b>Our review of the valuation of property, plant and equipment has not highlighted any issues which we wish to bring to your attention. We were satisfied from our review of the valuation report, that the methods and assumptions used in valuing the land and property assets are considered to be reasonable and in accordance with the requirements of IFRS and the Code.</b></p>
<b>Valuation of pension fund net liability</b> The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	<p>As part of our audit work we:</p> <ul style="list-style-type: none"><li>• documented the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated;</li><li>• completed a walkthrough of the key controls to assess whether they were implemented as expected and mitigated the risk of material misstatement in the financial statements;</li><li>• reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation;</li><li>• gained an understanding of the basis on which the IAS 19 valuation was carried out, and undertook procedures to confirm the reasonableness of the actuarial assumptions made; and</li><li>• reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report .</li></ul> <p><b>We did not identify any issues to report in respect of the pensions liability. We were comfortable that the assumptions used by the Actuary were reasonable for the purpose of valuing the pension fund liabilities as at 31 March 2016.</b></p>

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# Audit of the accounts

## **Audit opinion**

We issued an unqualified opinion on the Council's accounts on 27<sup>th</sup> September 2016, in advance of the 30<sup>th</sup> September 2016 national deadline.

The draft financial statements and accompanying working papers were available for us to commence our audit on 6 June 2016, two weeks earlier than the previous year and almost a month ahead of the national deadline.

We completed our work on the 4<sup>th</sup> August 2016 in accordance with the agreed timetable and reported the key issues from our audit to the Audit and Governance Committee on the 19<sup>th</sup> September 2016.

We reported in our Audit Findings Report that:

- the financial statements submitted for audit were of good quality, delivered by an effective closedown process and supported by excellent working papers;
- of particular note was the speed and efficiency that queries were responded to by Council staff across all departments;
- the draft accounts contained no material errors affecting the Council's expenditure or level of useable reserves;
- we did identify a relatively small number of disclosure changes including a change in the treatment of £2.9m of clients monies that had been included in cash and creditors; and
- we also requested some minor adjustments to the disclosure notes to improve the presentation of the financial statements.

Due to the quality of the draft accounts and supporting working papers it was not necessary to raise any recommendations.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

## **Whole of Government Accounts (WGA)**

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO and submitted our assurance statement on the 27<sup>th</sup> September in advance of the national deadline.

## **Other statutory duties**

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.



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# Value for Money Conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 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. We did not identify any significant risks and our main considerations in arriving at our conclusion were:

- The Council's overall financial health, whilst challenging financial health remains strong overall. The Council has adequate general reserves of £17.8 million and Usable Reserves total £113million.
- The Council has a track record of delivering financial performance in line with its Medium Term Financial Plan and met its savings target of £13.5million in 2015/16.
- The Council continues to be well managed and has clear and transparent reporting arrangements in place.
- The Council is supporting the Clinical Commissioning Group to deliver better health outcomes for the community and is also working with its partners to secure a development strategy for the long term economic benefit of the Parkside site.

Our work is dynamic and we continued throughout the period to review relevant documents as well as make inquiries of management and those charged with governance up to the date of giving our report.

As with other local authorities, the Council is facing increased demand for services, most notably in adult and children's care services, at a time when funding is reducing. The Council delivered its planned savings in 2015/16 and has begun a process of change by reorganising and streamlining its structure. There is a clear investment framework and strategy as it moves towards its vision for 20:20 Good progress is being made with the redevelopment of the former Parkside Colliery and the first stage of the West Point leisure and retail site is complete.

The Council is also one of the six Merseyside Councils that approved the Liverpool City Region Devolution agenda. The Council continue to effectively manage the process of settling the Equal pay and Equal Value claims liability.

The Council acted decisively during the year to respond to the financial pressures affecting the health economy locally and there is a strong working relationship with the Clinical Commissioning Group. Progress is being made with the move towards an Integrated Care Model for St Helens.

## Overall VfM 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 2016.

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# Working with St Helens Metropolitan Borough Council

## Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

**An efficient audit** – we delivered the accounts audit ahead of the deadline and in line with the timescale we agreed with you.

**Understanding your operational health** – through the value for money conclusion we provided you with assurance on your operational effectiveness. We are proud of the progress you have made with establishing your ambitious Care Together integrated commissioning organisation and with the benefits brought about through Vision St Helens.

**Sharing our insight** – we provided regular updates covering best practice. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

**Thought leadership** – We have shared with you our publication on 'Building a successful joint venture' and will continue to support you as you consider greater use of alternative delivery models for your services.

**Providing training – Providing information** – We provided you with access to CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.

## Looking forward - Our work with you in 2016/17

**Highways Network Assets** - The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles and requires compliance with the requirements of the Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges and street furniture. These assets should always have been recognised within Infrastructure Assets.

The new requirement is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016. Councils may need to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

This significant accounting development is likely to be a significant risk for our 2016/17 and we will continue to meet with Officers and issue further briefings during the coming year to update the Council on key developments and emerging issues.

**Care Together** - We will also continue to work with you and support you over the next financial year as the Care Together integrated care organisation develops. We will meet with officers to agree the accounting disclosures.

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and non-audit services for St Helen's council 15/16:

## Fees – St Helens Council

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	105,107	105,107	140,142
Housing Benefit Grant Certification	14,969	14,969	13,520
<b>Total fees (excluding VAT)</b>	<b>120,076</b>	<b>120,076</b>	<b>153,662</b>

## Fees for other services – St Helens Council

Service	Fees £
<b>Audit related services:</b>	
Teachers' Pension Return Audit	3,000
<b>Total fees (excluding VAT)</b>	<b>3,000</b>

We have undertaken the following non-audit services for St Helens Council for 15/16

## Reports issued – St Helens Council

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016

## Fees for other services

Service	Fees £
<b>Non Audit related services</b>	
Vision 20 20 workshop - members	4,768
Vision 20 20 workshop - officers	6,276
Total	11,044



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