

Annual Audit Letter

Year ending 31 March 2018

St Helens Metropolitan Borough Council

29 August 2018



Contents



Your key Grant Thornton team members are:

Robin Baker

Engagement Lead

T: 0161 214 6399

E: robin.j.baker@uk.gt.com

Tommy Rooney

Audit Manager

T: 0161 214 6359

E: tommy.o.rooney@uk.gt.com

Dianne Webster

In Charge Auditor

T: 0161 214 6364

E: dianne.m.webster@uk.gt.com

Section	Page
1. Executive summary	3
2. Audit of the accounts	5
3. Value for money conclusion	9

Appendices

A Reports issued and fees

Executive summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at St Helens Council (the Council) 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 Audit & Governance 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 £8,232,000, which is 2% of the Council's gross expenditure on cost of services.
Financial statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2018, in line with the earlier deadline this year.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for money arrangements	We were satisfied that the Council continues to have proper arrangements in place to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 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 Audit & Governance Committee in our Annual Certification Letter.
Certificate	We have completed the audit of the accounts of St Helens Metropolitan Borough Council for 2017/18 in accordance with the requirements of the Code of Audit Practice and certified completion of the audit on 31 July 2018.

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'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) (ISAs) and other guidance issued by the NAO.

Executive summary

Working with the Council

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

- an efficient audit – we delivered an efficient audit with you, delivering the accounts in line with the earlier deadlines set this year.
- understood your operational health and future challenges – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- 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
August 2018

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council'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 Council's accounts to be £8,232,000, which is 2% of the Council's 2016/17 gross expenditure on cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

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

We set a lower threshold of £412,000, above which we reported errors to the Audit & Governance 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 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'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 override 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. We identified management override of controls as a risk requiring special audit consideration.</p>	<p>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 has not identified any evidence of management over-ride of controls. In particular, the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p>
<p>Valuation of property, plant and equipment</p> <p>The Council revalue its land and buildings on an rolling basis 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>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 challenged 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>In October 2017 the Council purchased the freehold interest in Church Square for £28.3m. In accordance with requirements officers had the asset revalued by specialist external valuers, for inclusion in the financial statements. The property has been treated as a regeneration asset and valued at £27.2m.</p> <p>As part of our work we reviewed the following issues that were reported in our Audit Findings Report for 2016/17:</p> <ul style="list-style-type: none"> An asset with a Net Book Value (NBV) of £60k may have been sold – we have confirmed that this was sold and so has been removed from the Balance Sheet at 31/3/18 Possible double counting of a swimming pool car park with a NBV £90k – we have confirmed that this has been resolved through the processing of the revaluation exercise for 2017/18 The Council's ownership (rights & obligations) of Sutton Children's Centre, with a NBV of £798k, could not be confirmed – action is currently being taken to resolve this issue. The asset is currently on the Balance Sheet with a NBV of £1.3m. <p>Our audit work identified no other 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</p> <p>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>We have:</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 are 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 identified no issues in this area.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, in advance of the national deadline.

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 Audit & Governance Committee on 30 July 2018.

Annual Governance Statement and Narrative Report

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

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 issued an assurance statement which confirmed the Council was below the audit threshold.

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 identify any issues that required us to apply our statutory powers and duties under the Act. We did not receive any objections from electors to the 2017/18 accounts. There were no circumstances that required us to issue a public interest report in respect of our 2017/18 audit.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of St Helens Metropolitan Borough Council in accordance with the requirements of the Code of Audit Practice. We issued our certificate on 31 July 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>Financial budget pressures</p> <p>The Council's future budgets remain challenging with further savings of £13.1m required to be delivered in 2018/19 and 2019/20 whilst managing financial pressures in order to deliver a balanced revenue budget position over that period. As part of its 2020 Vision for St Helens the Council is looking to regenerate the Town Centre and continue to deliver on its ambitious plans to regenerate the Borough including Parkside Colliery.</p>	<p>We have monitored the Council's budgetary performance and financial planning. We have also considered the processes established by the Council to identify, manage and monitor the savings proposals to address the budget gap to 2020. We updated our understanding of the arrangements for overseeing the Council's support for the regeneration of St Helens.</p>	<p>The current and forecast financial position is reported regularly to Council, Cabinet and the Audit and Financial Monitoring Overview and Scrutiny Panel. The reports set out the current revenue budget issues and actions being taken to address them to deliver a balanced position, and the position on the capital budget. There is also appropriate review and challenge by Cabinet of proposed actions by portfolios to ensure they operate within the agreed cash limits.</p> <p>The Council set a three year budget in March 2017 covering the period 2017-2020. 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 by the Budget Scrutiny Task Group and the committee and Council review and approval process. The 3 year budget plan requires the delivery of £20.6m savings over the period. In February 2018 Council reaffirmed the budget strategy, agreed the cash limits for 2018-19 and 2019-20 and reconfirmed the savings requirements over the 2017-2020 period of £20.6m, of which £13.1m is required for the period 2018-2020. The Council continues to undertake reviews to find savings and efficiencies within directorates with savings targets set for People's Services Department of £10.5m, Place Services Department £7.9m and Corporate Services Department of £2.2m. Currently the Council reports measures have been implemented or identified to meet all of these targets.</p> <p>Delivering the level of savings measures required and managing demand in 2018/19 will again be challenging. The budget update report to Cabinet in July 2018 highlights risks of additional cost pressures of £5.3m in 2018/19 and £10.6m in 2019/20, including demand pressures and price inflation. The report also highlights future uncertainties such as local government funding when the Government's long term funding settlement ceases in 2019/20. The Council will need to maintain robust procedures to manage any impact these have on available resources and revenue spending to ensure it can maintain a balanced position.</p> <p>The Council continues work towards its 2020 Vision and has agreed a revised Council Plan 2018-20. The Council has also set four strategic objectives which are:</p> <ul style="list-style-type: none"> • Sustainable Health and Social Care • Growing the economy • Raising Aspiration and Ambition • Being Better Connected

Value for money conclusion (continued)

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
		<p>The Council has continued to work towards 'St Helens Cares' to address the forecast gap in spending of £101m by 2020. The approach involves the local health and care system working towards the integration of services within the borough, including with St Helens CCG to ensure robust governance arrangements and oversight of the £450m combined budget and establishing an integrated contract with a lead provider by October 2018.</p> <p>The Council continues to collaborate at a Liverpool City Region level with the Combined Authority. The Council has continued its work with the Economy Board to develop and implement a local Economic Growth Strategy. A key part of the approach is the strategy for the redevelopment of St Helens Town Centre following the Council's purchase of Church Square during 2017/18 and its joint venture with Langtree for the development of the former colliery site at Parkside.</p> <p>Conclusion</p> <p>We are satisfied, on the basis of the areas reviewed, that the Council's arrangements for financial management, reporting and budget setting, and its work with partners towards its strategic objectives, are adequate. An unqualified VFM conclusion was given.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	February 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	105,107	105,107	105,107
Housing Benefit Grant Certification	14,696	TBC*	10,140
Total fees	119,803	TBC	115,247

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

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. TBC* The final fee for certification will be determined following completion of our work.

Fees for non-audit services

Service	Fees £
Audit related services	
Certification of Teachers Pension Return	3,121
Non-Audit related services	
None	N/A

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.

