

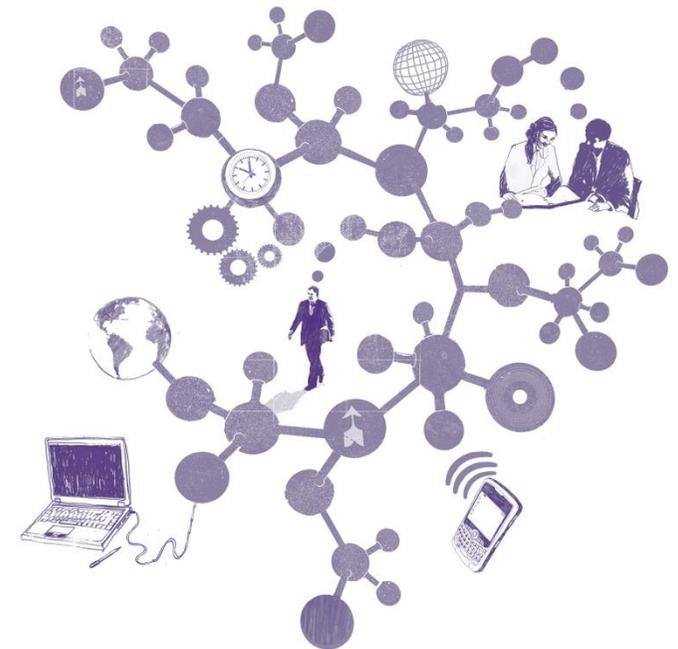
The Annual Audit Letter for High Peak Borough Council

Year ended 31 March 2017

October 2017

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at High Peak Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 and Accounts Committee (as those charged with governance) in our Audit Findings Report on 27 September 2017.

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 gave an unqualified opinion on the Council's financial statements on 28 September 2017.

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 2017. We reflected this in our audit opinion on 28 September 2017.

Certificate

We certified that we had completed the audit of the accounts of High Peak Borough Council in accordance with the requirements of the Code on 28 September 2017.

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 2017. We will report the results of this work to the Audit and Accounts Committee in our Annual Certification Letter.

Our work with you in 2016/17

An efficient audit – we delivered the accounts audit before the deadline. Our audit team are knowledgeable and experienced in your financial accounts and systems.

Improved financial processes – during the year we reviewed your financial systems and processes including journals processing, employee remuneration and operating expenditure.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

Support outside of the audit – we supported you on a number of areas outside of the audit. These included leisure services and waste management.

Working with the Council

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 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied 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 £1,021,000 which is 2% 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 specific materiality for disclosures of officers' remuneration, salary bandings and exit packages and related party transactions. We set a lower threshold of £20,000.

We set a lower trivial threshold of £51,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance 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 the Executive Director (CFO) 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 included in the Statement of Accounts on which we gave 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

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 | Findings and conclusions |
|--|---|---|
| <p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Documented our understanding of the processes and controls in place around the accounting for employee remuneration walked through the controls in place (to confirm our understanding) over payroll expenditure performed trend analysis to identify any unusual variances in pay transactions reviewed the reconciliation of your payroll system to the general ledger <p>We have also carried out other work in this area:</p> <ul style="list-style-type: none"> tested a sample of employee remuneration payments in the year to ensure accurately accounted for and in the correct period agreed the disclosure of senior officers remuneration to the information from the payroll system and supporting evidence (in full rather than sample approach). | <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> |
| <p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated) | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Documented our understanding of the processes and controls in place around the accounting for operating expenses walked through the key controls to assess whether those controls were in line with our documented understanding reviewed the completeness and accuracy of the control account reconciliation between the purchase ledger and the general ledger obtained an understanding of the accruals process and tested a sample of accruals (along with other creditors balances) tested a sample of payments after the year end to confirm these were accounted for in the correct period. <p>We have also tested a sample of operating expense transactions in the year to ensure these are accurately accounted for and in the correct period.</p> | <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> |

Audit of the accounts

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|---|
| <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure • reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) • tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES • tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger • tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements • reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. | <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>The Council have prepared the new statements in accordance with the requirements.</p> <p>The disclosure of the effect of these changes on the prior year comparatives is comprehensive and particularly well presented.</p> <p>Presentation amendment to separate the movement on the general fund and HRA balances reported on the EFA.</p> |

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 28 September 2017, in advance of the 30 September 2017 national deadline.

We received the draft financial statements on 5 June, as the Council were successful in pulling forward their own closedown timetable in readiness to meet the earlier opinion deadline of 31 July from 2017/18 onwards. The Council provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit. We will work with officers to agree how best we can achieve this significantly earlier deadline next year.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Accounts Committee on 27 September 2017.

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 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.

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 2016 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 in table 2 overleaf.

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 2017.

Value for Money

Table 2: Value for money risks

| Risk identified | Work carried out | Findings and conclusions |
|--|--|--|
| <p>Medium Term Financial Plan</p> <p>The Council has historically managed its finances well and has consistently achieved savings. It is on course to achieve an underspend against its general fund budget for 2016/17. However, following the most recent settlement, and with the expected reduction in government grant, the Council has identified that it must secure savings of over £2.1m for the general fund over the lifetime of the four year MTFP.</p> <p>The challenge that this saving requirement presents to the longer term financial sustainability of the Council is regarded a significant risk to the VFM conclusion.</p> | <p>We met with key officers to discuss key strategic challenges and the Council's proposed response and considered reports to members to:</p> <ul style="list-style-type: none"> • review the outturn position for 16/17 and the budget plans for 17/18 • review the Council's progress in updating its medium term financial plan and efficiency and rationalisation strategy (which includes major procurement activities) | <p>The Council has set out its proposals to secure the £2.1m of financial savings over the four year period of the MTFS 2017 - 2012. The new efficiency and rationalisation strategy has been incorporated into the budget setting cycle and so was subject to Council approval in Feb 2017. The strategy sets out five areas of focus, these being major procurement, asset management, housing and economic growth, income generation and rationalisation. These schemes have a longer lead in time and so the Council is planning the use of reserves of £2.095 m in the first three years of MTFS, to support this transition. Reserves remain at an appropriate level and so this strategy is not considered to place the Council at undue risk and the retained balance remains in line with the Council's reserves policy.</p> <p>We note the outcome of the financial position reported for 2016/17, The provisional outturn on the General Fund Revenue Account for the year is £9,554,288. This represents a surplus of £697,021. Although the Council report a shortfall of £419,210 in the delivery of the Efficiency Plan savings in-year, the in-year underspend on the overall budget has meant that the Council has not drawn from the earmarked reserve set up to support the Efficiency Programme. The Housing Revenue Account Budget has secured a surplus of £2.447m which is taken to reserves to support future capital and revenue costs relating to the housing stock.</p> <p>On this basis, we have sufficient assurance that the Council has appropriate arrangement in place to identify and realise further financial savings over the lifetime of the MTFP. We have obtained sufficient information to support our value for money conclusion, particularly with regard to the Council's arrangements for utilising assets effectively to support the delivery of strategic priorities, and planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p> |

Value for Money

Table 2: Value for money risks (continued)

| Risk identified | Work carried out | Findings and conclusions |
|--|--|--|
| <p>HRA Business Plan</p> <p>The Council's Business Plan for the housing revenue account, is affected by external factors including the government announcements of rent reductions that must be applied in future.</p> <p>We need to consider the Council's arrangements to update its Business Plan during 2016/17 in light of this and other developments, and how it is seeking to address the longer term financial sustainability of the housing revenue account. This area represents a risk to the VFM conclusion.</p> | <p>We considered how the Council have responded to the developments that impact upon its HRA Business Plan through discussions with officers and review of key documents and reports to Members.</p> | <p>During 2016/17 there has been a fundamental review of the HRA Business Plan in order to reflect the impact of rent reductions as announced by Government. The original projection was that the social sector rent reduction would result in an annual deficit on the HRA of £2.2m. The Council put in place arrangements to develop the 30 year business plan, alongside a process of self assessment against the CIPFA / CIH Voluntary Code for Self financed HRA and the opportunity to address any matters unresolved from the transfer of the housing function from the former arms length management organisation (ALMO) High Peak Community Housing.</p> <p>This work has continued throughout 2016/17 and has resulted in the HRA Business plan - Financial improvement plan as set out in the appendix B to the MTFS with further work to finalise the HRA Business Plan early in 2017/18.</p> <p>The improvement plan reports an improvement to the projected deficit position, reducing this to £770k in 2020/21. The plan for 2017/18 is for a small surplus of £57k - but the following three years then build up to annual deficit positions of £243k(in 18/19), £496k in 2019/20 and £770k in 2020/21.</p> <p>Whilst at this stage the HRA still showed an overall deficit in the medium term, we note that the review continued into 2017/18. The projections of further savings to be secured, indicated that there are areas where savings will be focussed in order to provide for a balanced HRA. The projections from these areas, which include voluntary reduction in repayment of debt, rental income, repairs and maintenance savings, ICT costs, void costs and savings through the disposal of surplus stock, may realise savings of up to £1.2m per annum and so more than cover the projected deficits referred above.</p> <p>On this basis, we are satisfied that this does not pose a risk to our VFM conclusion, particularly with regard to the Council having appropriate arrangements in place during 2016/17, for utilising assets effectively to support the delivery of strategic priorities, and planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p> |

Appendix A: Reports issued and fees

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

Fees

| | Proposed fee £ | Actual fees £ | 2015/16 fees £ |
|-------------------------------------|-------------------|------------------|-------------------|
| Statutory audit of Council | 47,273 | 47,273 | 47,273 |
| Housing Benefit Grant Certification | 11,040 | 11,040 | 11,040 |
| Total fees (excluding VAT) | 58,313 | 58,313 | 58,313 |

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

Reports issued

| Report | Date issued |
|-----------------------|----------------|
| Audit Plan | February 2017 |
| Audit Findings Report | September 2017 |
| Annual Audit Letter | October 2017 |

Fees for other services

| Service | Fees £ |
|---|--------|
| Audit related services: | |
| Pooling Capital Receipts 15/16 – work completed in November 2016 | 2,200 |
| Non-audit services: | |
| • Leisure services – options (work completed in 2016/17) | 8,990 |
| • CFOi insights – subscription agreed September 2016 | 2,000 |
| • Place Analytics – year 3 of subscription package | 5,625 |
| • Waste management benchmarking and business case challenge (<i>reduced from that reported in the audit plan</i>) | 4,396 |

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 other services which were identified.
- We have considered whether other 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, as reported in our Audit Findings Report.



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