External Audit ISA260 Report 2017/18

Bolton Cares Ltd and Bolton Cares (A) Ltd

FINAL

14 September 2018

Contents

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Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Companies' accounting practices and financial reporting.

We also assessed the Companies' process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

The Companies' overall process for the preparation of the financial statements is adequate.

Going concern

The financial statements of the Companies have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Companies to continue as a going concern.

Control issues

We have not identified any significant deficiencies in the Companies' system of internal control during our audit.

Completeness of draft accounts

We received a complete set of draft accounts by the end of May 2018.

Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by Officers, including those who are not part of the finance team. As a result of this, all of our audit work were completed within the timescales expected, with minimal outstanding queries.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Companies' 2017-18 financial statements.

For the year ending 31 March 2018, Bolton Cares Ltd has reported total comprehensive income of £77k. Bolton Cares (A) Ltd has report total comprehensive income of £370k, which includes an actuarial gain in relation to the defined benefit liability of £756k.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

02

Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2017-18* we reported that we did not rebut this assumption for our audits of Bolton Cares Ltd and Bolton Cares (A) Ltd.

Our procedures around revenue recognition included agreement of contract revenue to signed contracts, and performing testing of revenue cut-off around year end to provide assurance over recognition of revenue in the appropriate financial period.

There are no matters arising from this work that we need to bring to your attention.

Over the following pages we have set out our assessment of the specific significant risks we identified in relation to the audit of the Companies' financial statements.

Specific audit areas (cont.)

Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Companies.

Risk:

Pension Liabilities

The net pension liability represents a material element of Bolton Cares (A) Ltd's balance sheet. The Company is an admitted body of the Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Company's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Company's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Company's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Company's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Our assessment and work undertaken:

As part of our work we reviewed the controls that the Company has in place over the information sent directly to the Scheme Actuary. We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This included consideration of the process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Hymans Robertson, the scheme actuary

We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges. We also reviewed the methodology applied in the valuation by Hymans Robertson.

In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.

In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. We obtained assurance from the Pension Fund auditors (Grant Thornton) over the overall value of fund assets.

During our audit, we asked a series of questions of the GMPF administering Authority and the actuaries, Hymans Robertson, regarding the roll forward of returns on assets to 31 March 2018. This identified that the return on assets was estimated during the year, but at the time of our audit the actual returns were now known and were materially different from those which had been estimated earlier in the year. As a result of this work we have identified a material misstatement which has been adjusted by management. See page 9 for more details.

No other misstatements were identified as a result of our work on Pension asset and liability valuations.

We have set out our view of the assumptions used in valuing pension assets and liabilities at page 5.

Judgements

We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	Audit Difference
	Acceptable Range					

Subjective area	2017-18	2016-17	Commentary
Valuation of pension assets and liabilities	3	3	The Company continues to use Hymans Robertson to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. The actual assumptions adopted by the actuary fell within our expected ranges except for the discount rate, as set our below. However, when the actuarial assumptions were reviewed together, the overall assessment is that the assumptions made are balanced and reasonable.

Assumption	Actuary Value	KPMG	Assessment
Discount rate	2.70%	2.51%	6
CPI inflation	2.40%	2.15%	1
Net discount rate	0.3%	0.10 - 0.34%	3
Salary Growth	2.50%	2.16 - 4.16%	3
Life expectancy Current male / female Future male/female	 21.5 / 24.1 23.7 /26.2	 22.1 / 23.9 23.5 / 25.4	2
Overall assumptions			3

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Proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion on the Company's 2017-18 financial statements following approval of the Statement of Accounts by the Board in October 2018.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 3) for this year's audit was set at £200,000 for Bolton Cares Ltd and £140,000 for Bolton Cares (A) Ltd. Audit differences below £10,000 for Bolton Cares Ltd, and £7,000 for Bolton Cares (A) Ltd, are not considered significant.

Our audit identified a total audit difference of £217,000, which we set out in Appendix 2. It is our understanding that this has been adjusted in the final version of the financial statements.

Annual report

We have reviewed the Companies' 2017-18 annual reports and have confirmed that they are consistent with the financial statements and our understanding of the Companies.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Companies' 2017/18 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Bolton Cares Ltd and Bolton Cares (A) Ltd for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Bolton Cares, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Chief Executive for presentation to the Board. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Companies' 2017-18 financial statements.

Appendices

Appendix 1:

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Board).

We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Adjusted audit differences

There was one material adjusted audit differences identified during our 2017/18 audit of Bolton Cares (A) Ltd. This has been corrected by the Company.

Table 1: Adjusted audit differences (£'000)

No.	Profit and Loss Account and Other Comprehensive Income	Statement of Changes in Equity	Liabilities	Basis of audit difference
1	Cr Other Comprehensive Income 217	Cr Total Comprehensive Income 217	Dr Net Pension Liability 217	Actual return on assets to 31 March 2018 was £217k greater than the estimate made during the year. Consequently, the actuarial gain on revaluations in other comprehensive income is increased (Credit) and the net defined benefit liability is decreased (Debit).

Unadjusted audit differences

We are pleased to confirm that there were no material unadjusted audit differences identified during our 2017/18 audit.

Presentational adjustments

A number of minor amendments focused on presentational improvements have also been made to the 2017/18 draft financial statements.

Appendix 2:

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in March 2018.

Materiality for the Companies' accounts was set at £200,000 for Bolton Cares Ltd and £140,000 for Bolton Cares (A) Ltd, which equates to around 1.6 and 1.1 percent of total revenue, respectively. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to those charged with governance

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Board any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Companies, an individual difference is considered to be clearly trivial if it is less than £10,000 for Bolton Cares Ltd and £7,000 for Bolton Cares (A) Ltd.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Board to assist it in fulfilling its governance responsibilities.

Appendix 3:

Required communications with those charged with governance

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	There was one material adjusted audit differences identified during our 2017/18 audit.
Unadjusted audit differences	We are pleased to confirm that there were no material unadjusted audit differences identified during our 2017/18 audit.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Companies' internal control environment, including confirmation that there were no significant deficiencies identified, on page 4 of this report.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Companies' officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Appendix 3:

Required communications with those charged with governance (cont.)

Required Communication	Commentary
Other information	No material inconsistencies were identified related to other information in the Annual Report. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team and others in the firm have complied with relevant ethical requirements regarding independence. See Appendix 4 for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Companies' accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 10.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF BOLTON CARES LTD AND BOLTON CARES (A) LTD

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

— General procedures to safeguard independence and objectivity;

— Independence and objectivity considerations relating to the provision of non-audit services; and

— Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

— Instilling professional values

— Communications

— Internal accountability

— Risk management

— Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Appendix 4:

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the Companies and its controlled entities for professional services provided by us during the reporting period. We have not charged the Companies any non-audit fees during the period 2017/18.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Board.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Partner and audit staff is not impaired.

This report is intended solely for the information of the Board of the Companies and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

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This report is addressed to the Companies and has been prepared for the sole use of the Companies. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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