

Annual Governance Report

Halton Borough Council

Audit 2009/10

Date **September 2010**

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Strategic Director Resources and Operational Director Finance on 9 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 4 to 33);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Michael Thomas
District Auditor

Date 13 September 2010

Key messages

This report summarises the findings from the 2009/10 audit. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from material error	Yes	7
Adequate internal control environment	Yes	8
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	14

Audit opinion

- 1 My audit of your 2009/10 financial statements is complete. Subject to my receipt of your signed letter of representation, I plan to issue an unqualified audit opinion on the financial statements. An unqualified opinion confirms that in my view the financial statements provide a true and fair view of the financial position of the Council. Appendix 1 contains a copy of my draft audit report.

Financial statements

- 2 The Council's 2009/10 financial statements were approved on 30 June, in line with the required deadline. The statements presented for audit were complete and of a good standard. The supporting working papers were much improved on last year, they were more comprehensive and of a more consistent good quality.
- 3 The financial statements have been amended for one material error and a number of non-material errors. There are no unadjusted misstatements. The adjusted errors have reduced the Council's reported year end deficit on the income and expenditure account from £26,174k to £25,210k but its finances in terms of level of balances remain unaltered. I have raised some issues about the qualitative aspects of your financial reporting.

Value for money

- 4 I intend to issue an unqualified conclusion stating that the Council has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Key messages

My audit has confirmed that the Council's arrangements continue to operate effectively. The wording of my draft report is attached at Appendix 1.

Audit fees

- 5 I set out my fee proposals to you in my Audit Opinion Plan for 2009/10. I reported to the Business and Efficiency Board on 10 March 2010 that I was satisfied that the audit fee was appropriate and no adjustment was required. However, in July 2010, and following discussion with officers, I carried out an additional piece of work to review a number of payments made to a head teacher at one of the Council's schools. This was outside of the scope of my agreed audit plan for 2009/10 and as a result I billed the Council an additional fee of £4,000.
 - 6 At the time of drafting this report I do not expect any further variation from the original fee. I will confirm the final fee in my Annual Audit Letter to the Council later in the year.
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Independence

- 7 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

8 I ask the Business Efficiency Board to:

- consider the matters raised in the report before approving the financial statements (pages 4 to 33);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 9** My audit of your financial statements is complete and subject to receipt of the signed letter representation I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Errors in the financial statements

- 10** The financial statements were submitted for audit in line with agreed timescales. They were of a good standard and although I identified a number of errors within the statements, only one was material in nature.
- 11** The material error related to pooled budgets income and expenditure. The Council is involved in four pooled budgets with the local PCT. Financial Reporting Standard (FRS) 9 requires all parties to a pooled budget arrangement to reflect their share of income, expenditure, assets and liabilities within their respective accounts. The Council's income and expenditure at service level (Children & Young People and Health & Community) included the PCT's share of pooled budget income and expenditure. This meant that the Council's cost of services income and expenditure figures were both overstated by £8,330k. The accounts have been amended to take out the PCT's share of income and expenditure
- 12** I am required to report all non-trivial errors and uncertainties identified during the audit. I noted a number of non-trivial errors in the Council's 2009/10 financial statements, some of which related to disclosure notes with no impact on the income and expenditure account or balance sheet. All identified errors have been adjusted by management. A schedule of the adjusted amendments is provided at Appendix 2 of this report.
- 13** The more significant amendments to the accounts are as follows:
- The accounts contained 3 prior period adjustments (PPAs). Under FRS3 PPAs are required for material adjustments applicable to prior periods arising from changes in accounting policies or from the correction of fundamental errors. The Collection Fund PPA, as a change in accounting policy, is correctly disclosed. However, the PPAs for cash and pooled budgets are neither material nor fundamental adjustments, they are corrections of errors in the previous year and as such should not be accounted for via a PPA. The accounts have been amended to remove the cash and pooled budget PPAs.

- The cashflow statement contained several errors, including a £1,180k understatement on interest received and a £1,400k understatement on capital grants received. The cashflow statement has been amended to reflect the correct values.
 - Short term investments and long term borrowings were included in the 2009/10 accounts at fair value instead of principal plus accrued interest. The use of fair value resulted in an overstatement of investments of £276k and an understatement of loans of £107k. The accounts have been amended to reflect the carrying value of borrowings and investments based on principal plus accrued interest.
- 14** Whilst I requested a number of amendments to the Council's 2009/10 financial statements, I do not want this to detract from the good job made by finance staff in putting the accounts together. As outlined in table 1 below, I highlighted the organisational restructure and the associated loss of corporate knowledge as a key risk to the production of the 2009/10 financial statements. The risk was well managed by the Council.

Recommendation	
R1	Comply with the requirements of FRS9 in accounting for pooled budget arrangements.
R2	Restate prior year figures only where there is a material change in accounting policy or to correct a fundamental error.
R3	Review the nature and cause of the errors identified during the audit and consider how errors could be minimised further in the future.

Important weaknesses in internal control

- 15** My audit has not identified any material weaknesses in internal control. However it has highlighted an issue with regard to the Adults with Learning Disabilities (ALD) pooled budget with the PCT. The 2009/10 ALD agreement has not been signed by the PCT. Lack of an up to date and agreed SLA makes effective financial management and performance monitoring difficult.

Recommendation	
R4	Ensure the 2009/10 ALD agreement is signed by all parties as soon as possible to minimise both financial and service delivery risk.

Letter of representation

- 16** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

Key areas of judgement and audit risk

17 In planning my audit, and as detailed in my 2009/10 audit opinion plan, I identified specific risks and areas of judgement to consider as part of my audit. My findings against these are summarised below.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
SORP 2009 requires changes in how the Council will account for local taxation. Risk that the new requirements are incorrectly applied resulting in a material error in the accounts.	The new accounting requirements for the treatment of local taxation in the Collection Fund have been followed by the Council. I identified one error relating to the 'business rate payment to pool' on the Collection Fund Income and Expenditure Account totalling £359k. Officers have amended the accounts to correct this.
General market conditions are a trigger event for an impairment review. Impairment could be significant compared to previous years. Risk that the carrying value of assets are materially misstated at the year end.	My audit has not identified any misstatements on the value of assets on the balance sheet. However the accounts included a net revaluation/impairment line totalling £1,836k in disclosure note 13(a). Revaluations and impairments should be disclosed separately and at gross value for each category of asset. The impairments figure has been further increased by £231k. This relates to impairments on land and buildings which had been excluded in error during the closedown process. Officers have amended the accounts.
Current economic conditions suggest that an increase in the Bad Debt Provision (BDP) may be required. Risk that provision may be understated.	The BDP has increased from £6.5m in 2008/09 to £8.8m in 2009/10. My audit has confirmed the basis of the provision. The BDP relates to an impairment of debtors and as such should be disclosed within the analysis of debtors at Note 17. It should not be included within the general provisions note at note 20. Note 20 has been amended to remove the BDP.
Increased risk of fraudulent financial reporting due to current economic environment and increased financial pressures.	My audit has not identified any fraudulent financial reporting. Officers and members have confirmed this within the letter of representation.
The Council is reviewing a number of	Officers have reviewed contract

Issue or risk	Finding
accounting areas as part of the transition to IFRS work. There is a risk that detailed review of accounting entries may identify errors under UKGAAP.	arrangements for the purposes of IFRIC12 and not identified any arrangements which need to be brought on to the Council's 2009/10 balance sheet. My audit has confirmed this view. Officers' work on preparing for the full implementation of IFRS in 2010/11 is ongoing. Momentum has slowed during the summer and much further work is needed if the required deadlines are to be met. See detail and recommendation at page 15.
Housing benefits expenditure and grant income are material entries in the accounts. Our deadline to complete the certification of the housing benefits subsidy claim is after our opinion deadline on the accounts.	I have carried out sufficient work on the housing benefits system and grant claim to confirm that the entries in the 2009/10 accounts are materially correct. Review of the housing benefit grant claim is ongoing and I am on track to meet the audit certification deadline of 30 November 2010.
Impact of the organisational restructure and the loss of corporate knowledge increases the risk of error and/or delay in producing the 2009/10 accounts.	The Council mitigated the risks associated with the restructure by establishing a team of officers to prepare the accounts and increasing capacity with temporary contract support. This has worked well. The 2009/10 accounts were produced on time and to a good standard. My audit team have also noted a significant improvement in the quality, number and consistency of working papers to support the accounts.
A number of staff will leave the Council through redundancy or early retirement before the end of March 2010. Risk that these costs may be accounted for incorrectly.	My audit has not identified any incorrect accounting of costs.
The Council has a number of equal pay claims and job evaluation claims in progress. Risk that these may be incorrectly recorded in the accounts.	The Council has accounted for equal pay in three ways: a provision, a reserve and a contingent liability. The provision of £711k satisfies the criteria of FRS12 and is supported by appropriate evidence. I have however queried the accounting treatment of the provision (see table 2 below). The equal pay reserve was increased by £1.5m during 2009/10 and now stands at

Financial statements

Issue or risk	Finding
	<p>just over £4m. Based on information seen as part of my audit I believe that the reserve may not be sufficient to cover all the potential costs of the equal pay claims against the Council if all claims are successful.</p> <p>The initial contingent liability disclosure note on equal pay was not fully compliant with the SORP as no estimate of value or timing was included in the note. The contingent liability note has been amended to include further detail.</p>
<p>Previous years audits have identified revenue expenditure incorrectly classified as capital expenditure. Risk continues into 2009/10.</p>	<p>My audit testing has not identified any revenue expenditure incorrectly classified as capital.</p>
<p>Mersey Gateway development costs continue to be significant. Risk that the 2009/19 accounting treatment may not be in line with the required financial reporting standards.</p>	<p>My audit has not identified any incorrect accounting treatment on Mersey Gateway development costs in 2009/10. I continue to have ongoing dialogue with the Operational Director Finance on Mersey Gateway.</p>
<p>Last year's audit identified a material error in the Council's accounts relating to the existence of building assets, this was subsequently corrected via a prior period adjustment. This risk continues into 2009/10.</p>	<p>My audit of fixed assets has not identified any issues relating to the existence of assets.</p>
<p>The financial instruments note last year required significant amendment. Risk of incorrect disclosure in 2009/10.</p>	<p>The 2009/10 financial instruments note has been amended to reflect correct values on financial liabilities and financial assets. The paragraph relating to other financial instruments was incorrect and has been deleted. The narrative disclosure within the note could be made simpler and more relevant to the Council.</p>
<p>The 2008/09 audit identified errors in the related party transactions note. Risk of non-disclosure of politically sensitive items in the accounts approved by members in June 2010.</p>	<p>My audit team noted some minor disclosure issues with this year's related party transactions note. Officers have amended the note to include the additional disclosures.</p>

Recommendation

R5 Review the content and clarity of the financial instruments note for 2010/11, paying particular attention to the categorisation of financial instruments and the associated accounting treatment.

Accounting practice and financial reporting

18 I consider the non-numeric content of your financial reporting. Table 2 contains the issues I want to raise with you.

Table 2

Issue or risk	Finding
<p>Text disclosures in respect of the following:</p> <ul style="list-style-type: none"> • Foreword • Accounting policies • Statement of movement of general fund balance (note 12) • Related party transactions (note 7) • Contingent liabilities (note 23) • Post balance sheet events (note 24) • Trust funds (note 27) • Financial instruments (note 29) <p>Various cross referencing inconsistencies were noted between statements, notes and narrative disclosures.</p>	<p>I identified a number of text disclosure issues and cross referencing inconsistencies all of which have been amended in the re-stated accounts. Further details are at Appendix 2.</p>
<p>Equal pay has been accounted for in several ways in the 2009/10 financial statements: as a provision, reserve and contingent liability. The provision of £711k has been charged to the general fund in 2009/10.</p>	<p>Regulation 30A of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146 introduces a new power providing discretion to local authorities not to charge to revenue a provision for back pay arising from unequal pay claims. This new power applies for the financial years 2006/07 to 2010/11 inclusive. The regulation requires the equal pay provision to be held in an 'equal pay back pay account' rather than be charged to revenue in the general fund. The equal pay account should be held in the lower half of the balance sheet (much like a reserve). By charging the £711k provision to the general fund the Council</p>

Financial statements

Issue or risk	Finding
	has understated its general fund in 2009/10. The impact on the general fund should only occur when the cash is actually paid out, in 2010/11 or future years.

Recommendation
R6 Establish an equal pay back pay account and comply with the accounting of requirements of Regulation 30A of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. I have based my conclusion on my work on the scored use of resources judgement.

Value for money conclusion

- 19** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 4.
- 20** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Managing finances

- 21** The Council has a proven track record of robust financial management and good financial standing which has continued in 2009/10. The Council has a good understanding of its costs and comparative performance and it has achieved both cost and service efficiencies during the year. It has put in place a major efficiency programme, including a programme of service reviews, which it anticipates will deliver significant ongoing efficiency savings to the local community over the next couple of years.
- 22** The Council has established financial planning arrangements in place with a medium term financial strategy (MTFS) that is updated annually. The MTFS includes consideration of the economic recession and scenario planning as well as the efficiency savings and cost savings required in each of the next three years.
- 23** Following the Government's emergency budget in June 2010 the Council has revised its 2010/11 budget to reflect the in-year reductions to its government and other grants of some £6.8m. It has identified a number of actions to address the funding shortfall and thereby ensure a continued balanced budget. As with most of the public sector, the financial outlook for the Council is extremely challenging. The budget report to Council in March 2010 identified a 'pessimistic' funding gap of £10m for 2010/11 but this has now been increased to around £15m. The annual update of the MTFS will consider this and its implications for future years.
- 24** The Council has a fairer charging policy for personal budgets for social care. This and other service charges, such as libraries, are part of its overall budget strategy and income is reported and monitored against budget as part of the quarterly reporting process. A recent Internal Audit report on charging for services highlighted some good evidence of benchmarking and examples where charging powers have been used to influence consumer behaviour such as internet use in libraries. It also highlighted

Value for money

several areas for improvement including recommending the development of a corporate charging policy and the establishment of a corporate framework to facilitate a more consistent approach to applying concessions. I endorse those recommendations particularly given the challenging financial outlook facing the Council.

- 25** As members are aware local government bodies are required to prepare their financial statements on a new accounting basis in 2010/11 to comply with the International Financial Reporting Standards (IFRS). After a late start the Council's progress on implementing the requirements of IFRS started to pick up some momentum in late 2009 but subsequently slowed again due to the organisational restructure and the 2009/10 accounts closedown process. A cross-directorate working group was set up in the summer of 2009, training took place and key issues were identified. In January 2010 an IFRS report including a high level implementation plan was presented to members of the Business Efficiency Board. Future IFRS progress reports will be taken to this Board. A more detailed implementation plan is in draft and officers indicate that they will commence the IFRS restatement following completion of the 2009/10 financial statements process.
- 26** There is a significant amount of work still to be done if the required deadlines for the implementation of IFRS are to be met. A lot of base information is still to be collected and its impact assessed before the accounting treatment can be determined, this is particularly so on leases and property, plant and equipment. Early indications from officers that the restated 2009/10 balance sheet would be available by the end of October 2010 have slipped.

Recommendation	
R7	Develop a corporate charging policy and establish a corporate framework to ensure a more consistent approach to applying concessions
R8	Ensure that sufficient capacity and priority is given to the implementation of IFRS to meet the required deadlines.

Governing the business

- 27** The Council has well established governance arrangements in place which are well understood by both officers and members. There is a strong ethical framework and culture within the organisation and a real commitment to deliver good quality services which meet the needs of the local community.
- 28** The Council is an active participant in the National Fraud Initiative (NFI). The Business Efficiency Board's work plan was revised in 2009/10 to include regular reports and updates on counter fraud activity. These reports include details on all fraud related issues including NFI matches, investigations and successful recovery of monies to the Council. There is a fraud e-learning package for officers and members on the Council's intranet and high numbers have registered for the training. No major employee frauds have been identified at Halton during 2009/10. Housing Benefit fraud is dealt with by a separate fraud investigation team which has a good track record of identifying and effectively dealing with fraud.

- 29** The Council has continued to develop its commissioning and procurement functions and I have seen good evidence of joint procurement initiatives with partners and neighbouring organisations. The Council now has a sustainable procurement policy with identified champions at member and executive level with a structured training programme for key staff being developed.
- 30** There is generally good use of data to inform decision making and service delivery with some good examples of improved outcomes being delivered. Data quality arrangements have improved from last year. Risk based work has been undertaken to test systems and develop improvement plans, information security policies and guidance has been enhanced and data quality training has been delivered. Work is ongoing to continue to strengthen data quality arrangements.

Managing resources

- 31** For the first time this year I assessed the Council's arrangements for planning, organising and developing its workforce. My assessment took place during a period of significant change for the Council yet I was able to conclude positively on the arrangements in place. As part of its ongoing efficiency programme the Council implemented a major organisational restructure during 2009/10 which included the loss of over 100 FTE posts and changed roles and responsibilities for many staff. This organisational change was managed well. The Council engaged staff effectively, communicating change using a range of mechanisms and also provided good support for staff, with input from partners, to help with job search skills. I also noted that relationships with trade unions continue to be very good.
- 32** The Council's asset management arrangements are adequate. It has a current asset management plan which covers minimum requirements. It has continued to manage and use its assets well at an operational level with some good examples of Council assets being used to benefit the local community and enhance service delivery. There is however scope to further strengthen the links between corporate strategy and service outcomes, and to more formally integrate financial and property planning.
- 33** The Asset Management Working Group (AMWG) has continued to develop since its inception in October 2008. It has cross directorate membership, including strategic directors, and reports to the Management Team. It would benefit from a regular review of its terms of reference including clarification of its reporting responsibilities. Aware of the need to strengthen asset management arrangements AMWG invited CIPFA to review the Council's property services arrangements. CIPFA's report, in August 2009, identified a number of areas for improvement particularly around strategic asset management and also outlined a number of options for the future delivery of property and asset management services within the borough. At the time of my detailed audit work in March 2010 AMWG were establishing an action plan to address the CIPFA recommendations.

Recommendation

- R9** Continue to address and improve the strategic aspects of asset management, including developing a stronger and more explicit link between financial and asset planning.

Glossary

Annual governance statement

34 A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

35 A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

36 On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
 - whether they have been prepared properly, following the relevant accounting rules; and
 - for local probation boards and trusts, on the regularity of their spending and income.
-

Qualified

37 The auditor has some reservations or concerns.

Unqualified

38 The auditor does not have any reservations.

Value for money conclusion

39 The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor’s report to Members of Halton Borough Council

Opinion on the accounting statements

I have audited the Authority and Group accounting statements and related notes of Halton Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Halton Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Operational Director Finance and auditor

The Operational Director Finance’s responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by

Appendix 1 – Independent auditor’s report to Members of Halton Borough Council

CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

Opinion

In my opinion:

- The Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and
- The Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Group as at 31 March 2010 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s Responsibilities

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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Halton Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Michael Thomas

Officer of the Audit Commission

The Heath Business & Technical Park, Runcorn, Widnes, Cheshire WA7 4QX

Date

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 3

Adjusted misstatements	Nature of adjustment
Arithmetic errors	
Income and expenditure account	<p>Several errors were identified on the income and expenditure account:</p> <ul style="list-style-type: none"> • Incorrect use of PPAs to correct accounting errors on cash and pooled budgets relating to the previous year. • Inclusion in error of pooled budget income and expenditure relating to the PCT. <p>The correction of these errors impacted upon a number of entries within the financial statements. The major impact has been on the Council's 2009/10 income and expenditure account. Gross expenditure has reduced by £8,335k and gross income has reduced by £7,371k. The reported deficit for the year has decreased from £26,174k to £25,210k.</p>
Balance sheet	<p>Several errors were identified on the balance sheet:</p> <ul style="list-style-type: none"> • Temporary (short term) investments and long term borrowings and were included on the balance sheet at fair value instead of principal plus accrued interest. The use of fair value resulted in an overstatement of investments and an understatement of long term borrowings. Temporary investments have been reduced by £276k and long term borrowings have been increased by £107k. • Intangible assets were incorrectly shown on the balance sheet as £4,133k and did not agree to the analysis of intangible assets at note13(c) which totalled £2,267k. Intangible assets on the balance sheet have been reduced by £964k to £2,267k. Net fixed assets have also been reduced by the same amount. • The financial instruments adjustment account has reduced from

Appendix 2 – Amendments to the draft accounts

	£383k to zero. This amendment relates to the use of fair values for investments and borrowing (see paragraph above).
Cashflow Statement	<p>Several compilation errors were identified within the cashflow statement:</p> <ul style="list-style-type: none"> • Interest received - disclosed as £1,815k but should be £(2,995)k. • Capital grants received - disclosed as £15,948k but should be £(17,350)k • Interest paid - disclosed as £(1,005)k but should be £1,154k • Incorrect use of brackets on cash outflows and inflows <p>In addition the removal of the PPAs on cash and pooled budgets has resulted in amendments to the entries relating to other operating cash payments and rents (after rebates).</p>
Note 12 Analysis of movement on general fund	<p>Two entries within note 12 were included at net value rather than at gross value, as follows:</p> <ul style="list-style-type: none"> • Impairment of fixed assets has increased from £(8,870k) to £(10,272k) • Government grants deferred amortisation has increased from £4,269k to £5,671k.
Note 13 Fixed assets	<p>Note 13(a) on fixed assets disclosed a net figure of £1,386k for impairments and revaluations. Impairments and revaluations should be separately disclosed at gross value across all asset categories. Additionally impairments were understated by £231k as impairments on land and buildings had been excluded in error during the accounts closedown process. Note 13(a) has been amended as follows:</p> <ul style="list-style-type: none"> • Total revaluations £12,537k - analysed across land & buildings £12,430k, AUC £0k and surplus assets £107k. • Total impairments £11,152k - analysed across land & buildings £3,895k, AUC £3,837k and surplus assets £3,419k.
Note 29 Financial instruments	<p>The tables within note 29 on financial instruments contained a number of incorrect figures mainly as a result of the inclusion of inappropriate items, the largest of which were the payroll creditor of £4,724k and the VAT debtor of £2,2025k.</p> <p>Financial instruments balances table: total liabilities have increased, long term from £19,893k to £20,000k and current from £23,912k to £26,452k. Total current assets have reduced from £39,982k to £36,040k.</p> <p>The figures in the fair value tables have also been amended.</p>
Collection fund	<p>Differences totalling £359k were noted between two entries in the collection fund income and expenditure account and corresponding items in the Council's NNDR3 grant claim. The collection fund income and expenditure account and its associated note (note 4) have been amended as follows:</p> <ul style="list-style-type: none"> • Income - business ratepayers has reduced from £(44,093)k to

Appendix 2 – Amendments to the draft accounts

	<p>£(43,734)k</p> <ul style="list-style-type: none"> Expenditure - business rate payment to pool has reduced from £43,929k to £43,570k.
Cross references	<p>Various cross referencing inconsistencies and rounding were identified across the primary statements and notes to the accounts. The accounts have been amended to correct these.</p>
Text disclosure errors	
Foreword	<p>The foreword has been enhanced to include further information on the increase in the pension liability. Additional narrative included at note 13(b) to explain the differences in the reported capital expenditure figures between note 13 and the foreword.</p>
Accounting policies	<p>The initial set of accounting policies contained various errors and omissions relating to: financial liabilities and financial assets; tangible fixed assets; publicity; building control account; income under LA Goods & Services Act; section 137 expenditure and business improvement districts. In addition further explanation of the 2009/10 SORP changes were required on several items: IFRIC12 review; new accounting arrangements on Council Tax and Collection Fund; revised long term liabilities due to be settled within 12 months of balance sheet date now presented as current liabilities and the new remuneration reporting requirements for senior officers.</p> <p>The accounting policies have been amended to correct the errors and omissions and to more fully comply with the SORP.</p>
Note 7 Related party transactions	<p>Note 7 was amended to include:</p> <ul style="list-style-type: none"> Halton and St Helens PCT as a related party, the Council had receipts of some £12.55m and payments of over £4m with the PCT in 2009/10. Reference to the fact that one of the councillors is married to a non executive director at Halton and St Helens PCT.
Note 20 Provisions	<p>The bad debt provision (BDP) of £8.8m was initially included in the general provisions note at note 20. The BDP represents an impairment of debtors (a reduction in debtors) and as such should not be included within general provisions.</p>
Note 23 Contingent liabilities	<p>Note 23 included a reference to 'remaining' equal pay claims but provided no estimate of potential value or timing. Similarly, two outstanding employment tribunal claims were disclosed but with no estimate of the value or timing of the potential liability. The SORP indicates that any contingent liabilities disclosed should outline the nature of the liability and provide an estimate of the value involved. Note 23 has been enhanced to include more detail.</p> <p>In addition Note 23 has been expanded to include reference to the government's recent decision to cease BSF and its impact with regard to potential contractual commitments/claims against the Council.</p>

Appendix 2 – Amendments to the draft accounts

Note 24 Post balance sheet events	<p>The draft accounts included no post balance sheet disclosures at note 24. Two such disclosures were necessary for 2009/10, as follows:</p> <ul style="list-style-type: none">• Date of authorisation of the accounts, name of person authorising the accounts and an indication of any PBSEs between the end of the financial year and the date of authorisation.• Impact of the change from RPI to CPI as the basis for future public sector pension increases. The Cheshire Pension Fund actuary has assessed the impact for Halton BC as between 6 and 8% which would mean a reduction in the net scheme deficit at note 28 from £213m to between £172.6m and £182.7m. <p>Note 24 has been amended to include both disclosures.</p>
Note 27 Trust funds	<p>The opening and closing trust fund balances (£459k and £0) relating to Norton Priory Museum were omitted in error from the trust funds disclosure note at note 27.</p> <p>Whilst opening and closing balances were included within note 27 for all trust funds, income and expenditure figures were not disclosed for all funds.</p> <p>Note 27 has been enhanced to include the above disclosures.</p>
Note 29 Financial instruments	<p>The paragraph relating to other financial instruments was incorrect and has been deleted.</p>

Appendix 3 – Draft letter of representation

Michael Thomas
The Audit Commission
The Heath Business and Technical Park
Runcorn
Cheshire
WA7 4QF

Dear Mike

Halton Borough Council – audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Directors and Officers of Halton Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's accounts and Group Accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council, Executive Board and Committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

Appendix 3 – Draft letter of representation

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. In respect of Note 29 I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- that subsequent events do not require adjustment to the fair value measurement.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note 25 to the financial statements we have no other lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Business Efficiency Board on 30th June 2010, two non adjusting post balance sheet events have been identified and these are disclosed at Note 24 in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of Halton Borough Council

I confirm that this letter has been discussed by the Business Efficiency Board on 29th September 2010.

Signed

Name Councillor D. Leadbetter

Position Chairman of the Business Efficiency Board

Date 29th September 2010

Appendix 3 – Draft letter of representation

Signed

Name Bill Dodd

Position Operational Director, Finance

Date 29th September 2010

Appendix 4 – Value for money criteria

KLOE	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	N/A
Strategic asset management	Yes
Workforce	Yes

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2009/10 - Recommendations						
8	Comply with the requirements of FRS9 in accounting for pooled budgets arrangements.	3	DM Financial Management	Yes	In future any Prior Year Restatements will only be made in accordance with FRS3.	May 2011
8	Restate prior year figures only where there is a material change in accounting policy or to correct a fundamental error.	3	DM Financial Management	Yes	The annual closedown guidance and checklist will be amended to ensure that in future the requirements of FRS9 will be complied with.	Sept 2010
8	Review the nature and cause of the errors identified during the audit and consider how errors could be minimised further in the future.	3	DM Financial Management	Yes	The nature and cause of errors will be reviewed and procedures for reviewing the draft Statement of Accounts will be enhanced to ensure that errors are minimised as far as possible in future.	Sept 2010
8	Ensure the 2009/10 ALD agreement is	3	OD Prevention &	Yes	Every effort will be made to	Sept

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	signed by all parties as soon as possible to minimise both financial and service delivery risk.		Commissioning		ensure that the PCT sign the ALD agreement each year.	2010
11	Review the content and clarity of the financial instruments note for 2010/11, paying particular attention to the categorisation of financial instruments and the associated accounting treatment.	3	DM Financial Management	Yes	A fundamental review of the Financial Instruments note will be undertaken for 2010/11, in the light of experience gained and guidance from CIPFA.	May 2011
13	Establish an equal pay back pay account and comply with the accounting of requirements of Regulation 30A of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146.	3	DM Financial Management	Yes	The requirement for an equal pay back pay account will be considered in preparing the 2010/11 accounts.	May 2011
15	Develop a corporate charging policy and establish a corporate framework to ensure a more consistent approach to applying concessions.	3	OD Finance	Yes	Under Wave 2 of the Efficiency Programme a workstream regarding Income and Charging Arrangements is about to commence which will address all of these issues.	Sept 2010
15	Ensure that sufficient capacity and priority	3	DM Financial	Yes	Having now completed the	Sept

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	is given to the implementation of IFRS to meet the required deadlines.		Management		2009/10 accounts work has recommenced as a matter of urgency to prepare for the implementation of IFRS, with the initial objective of restating the 2009/10 accounts on an IFRS basis by 30th November 2010.	2010
16	Continue to address and improve the strategic aspects of asset management, including developing a stronger and more explicit link between financial and asset planning.	3	SD Resources	Yes	The on-going work of the Asset Management Working Group will continue to develop the Council's strategic asset management and to strengthen the link between financial and asset planning.	Ongoing

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
