

Annual Audit Letter

Halton Borough Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 4 to 7); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 8 to 11).**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 I issued an unqualified audit opinion on the Council's financial statements on 29 September 2010.

Value for money

2 I issued an unqualified value for money conclusion confirming the Council has satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

Audit fees

3 I set out my fee proposals to you in my 2009/10 fee letter in April 2009. I set an initial audit fee of £239,408. I increased this by £4,000 in July 2010 to accommodate an additional piece of audit work on payments made to a head teacher at one of the Council's schools. This additional audit work was outside of the scope of my agreed audit plan for 2009/10.

Current and future challenges

4 The economic downturn continues to be felt and the Council, along with other public sector bodies, is facing significant challenges. The recently announced Comprehensive Spending Review has indicated annual cuts in council budgets of 7.25 per cent and a general reduction in capital funding of some 30 per cent. Grants to local government will also fall.

5 In response to the increased financial pressures, the Council continues to review its financial plans to maintain robust finances while continuing to work towards achieving its strategic objectives. It seems likely that these pressures will continue to worsen at least in the short term and significant savings will be required over many years to achieve a balanced budget.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave an unqualified audit opinion on the Council's 2009/10 financial statements on 29 September, within the statutory target date.

Overall conclusion from the audit

6 I gave an unqualified audit opinion on the Council's financial statements in line with the required statutory deadline. I also issued an unqualified opinion on the Whole of Government Accounts consolidation pack on 29 September 2010. I reported the significant issues arising from my audit in my Annual Governance Report which I presented to the Business Efficiency Board on 29 September 2010.

7 The financial statements were submitted for audit in line with agreed timescales. They were of a good standard and supported by good quality working papers. I identified a number of errors within the statements, only one of which was material. All errors were amended before I gave my opinion.

Audit opinion

8 The material error related to pooled budgets income and expenditure. The Council is involved in four pooled budgets with the local PCT. Financial reporting standards require all parties to a pooled budget arrangement to reflect their share of income, expenditure, assets and liabilities within their respective accounts. The Council's draft income and expenditure account 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 were amended to take out the PCT's share of income and expenditure.

9 Appendix 2 of my Governance Report details all the amendments I requested to the Council's 2009/10 financial statements. My report also highlighted a number of areas for improvement, all of which are included in the agreed action plan of recommendations at Appendix 5 of the report.

10 Members will recall that my audit plan highlighted the organisational restructure and the associated loss of corporate knowledge as a key risk to producing the Council's 2009/10 financial statements. The Council managed this risk well. It established a team of officers to prepare the accounts and increased capacity with temporary contract support. The 2009/10 accounts were produced on time and to a good standard. I also noted a significant improvement in the quality, number and consistency of working papers to support the accounts.

Significant weaknesses in internal control

11 I did not identify any significant weaknesses in your internal control arrangements that might result in a material error in your financial statements. However my audit did highlight an issue relating to the Adults with Learning Disabilities (ALD) pooled budget with the PCT.

12 The 2009/10 ALD pooled budget agreement was not signed by the PCT. Lack of an up to date and agreed SLA makes effective financial management and performance monitoring difficult. Council officers need to continue to work with their partners at the PCT to ensure formal agreed SLAs are in place for all relevant joint arrangements. Given the financial and service pressures facing all sectors this is now more important than ever.

International Financial Reporting Standards

13 Local government bodies will prepare their financial statements on a new accounting basis for the first time in 2010/11 to comply with the International Financial Reporting Standards (IFRS). The introduction of IFRS raises significant challenges for local authorities. Disclosure requirements will be much greater under the IFRS Code than under previous rules and the burden will be particularly large in the first year. Authorities must ensure arrangements are in place if they are to publish timely and accurate IFRS compliant accounts for 2010/11.

14 My Annual Governance Report in September noted that officers had a significant amount of work to do to meet the IFRS implementation deadline. A lot of information was still to be collected and its impact assessed, particularly on leases and non-current assets. My ongoing discussions with officers suggest that momentum has picked up in recent weeks. Progress is now being made in a number of key areas, see table overleaf.

Table 1: IFRS implementation 2010/11

Progress is being made but further work is needed if officers are to meet the deadline for restatement.

Issue	Findings
Governance and oversight	The Operational Director Finance has provided several IFRS updates to the Business Efficiency Board. Members have provided appropriate challenge to officers.
Timetable	Officers plan to complete a restatement of the 1 April 2009 opening balance sheet and the 2009/10 accounts by 30 November 2010. Officers are still aiming to meet this deadline, although information is still to be collected for some items of account.
Non-current assets	Work on revaluation losses, impairment, and reclassification of some asset types is in progress. Work is also underway to identify and value relevant components of fixed assets.
Leases and other lease type arrangements	Officers have reviewed the Council's lease arrangements, including assessing 550 property related leases. My audit team are meeting with officers to discuss the approach adopted.
Employee benefits	Work is almost complete on capturing the data to calculate the accrual for holiday pay.
Group accounts	The Council's group accounts include Halton Transport Limited (HBT). Officers are currently discussing this issue with HBT's accountants.

15 Officers expect to produce the restated 2009/10 balance sheet and notes by the end of November 2010. I plan to complete an early review of the re-stated balances, operating costs and notes to confirm they are in line with the guidance.

National Fraud Initiative

16 The National Fraud Initiative (NFI) is the UK-wide anti-fraud programme developed by the Audit Commission. A data matching exercise is carried out comparing information held by and between around 1,300 organisations including councils, the police, hospitals and nearly 100 private companies. This helps to identify potentially fraudulent claims, errors and overpayments. Where matches are identified these are presented to the Council to investigate.

17 The exercise is carried out every two years. The last completed exercise was carried out in 2008/09. Internal audit identify matches needing investigation and co-ordinate with the relevant service area. As at October 2010, the Council had identified potential fraud and error overpayments (including already delivered and estimated outcomes) of £162,591. The table below summarises these.

Table 2: **Fraud and error overpayments (including already delivered and estimated outcomes) as at 14 October 2010**

Housing benefit	Pensions	Housing	Payroll and other investigations	Creditors	Late savings from 2006/07	Total
£25,215	£0	£124,995	£0	£341	£12,040	£162,591*

**This includes estimates where it is reasonable to assume that fraud and overpayments would have continued undetected without NFI data matching. A more detailed explanation is included at appendix 2 to the national NFI report.*

18 The Council has recently completed uploading its data onto the NFI website for the 2010/11 exercise.

Recommendations

R1 Ensure the ALD agreement is signed by all parties as soon as possible to minimise both financial and service delivery risk.

R2 Ensure that sufficient capacity and priority is given to the implementation of IFRS to meet the required deadlines.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

19 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

20 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

21 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

22 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

23 I am satisfied that the Council has met all of the relevant criteria for the VFM conclusion as shown overleaf.

Criteria	Adequate arrangements?
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	Not assessed in 2009/10
Strategic asset management	Yes
Workforce	Yes

24 I issued an unqualified value for money conclusion confirming the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources during 2009/10. I have set out below the key messages from my review.

25 The Council's track record of robust financial management and good financial standing has continued in 2009/10. It has achieved both cost and service efficiencies during the year. The efficiency programme, which includes a programme of service reviews, expects to deliver significant ongoing efficiency savings to the local community over the next couple of years. With the current pressures on public sector funding and spending it is more important than ever that these efficiency savings are delivered.

26 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. A 2009/10 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 several areas for improvement including 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.

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 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. A structured training programme for key staff is being developed.

29 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.

30 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.

31 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 has an up-to-date people strategy which provides a corporate framework for people management. The strategy includes a comprehensive analysis of local and national drivers which will impact on future workforce needs and makes good links with the Corporate Plan and Community Plan. Directorate workforce plans are in place and plans are underway to improve the consistency of the data within them.

33 Sickness absence rates, although still high, are reducing. Average sickness rates per employee fell from 13.5 days in 2008/09 to 10.2 days in 2009/10. This followed more support to managers to implement existing absence management policies and procedures. Further initiatives are planned for 2010/11 to further improve sickness absence rates across the Council.

34 The Council's asset management arrangements are adequate. The current asset management plan covers minimum requirements. The Council 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.

Recommendations

R3 Develop a corporate charging policy and establish a corporate framework to ensure a more consistent approach to applying concessions.

R4 Continue to address and improve the strategic aspects of asset management, including a stronger and more explicit link between financial and asset planning.

Approach to local value for money work from 2010/11

35 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

36 My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

37 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Financial challenges

38 The effect of the economic downturn continues to be felt in the public sector. The Council had already embarked on an ambitious efficiency programme to help it manage the impact of the downturn but these challenges have increased further in recent months.

39 In early September, and in response to the Government's emergency budget in June 2010, the Council revised its 2010/11 budget to reflect the required in-year reductions to its government and other grants of some £6.8 million. It identified a number of actions to address the funding shortfall and thereby ensure a continued balanced budget. The budget report to Council in March 2010 identified a 'pessimistic' funding gap of £10 million for 2011/12 but this was increased to around £15 million in the September revision.

40 The Government's Comprehensive Spending Review (CSR) in October has further increased the financial pressures facing the Council. Officers are currently working out the full implications of the CSR as part of the update of the Council's medium term financial strategy for 2011/12 onwards. Early indications are that the impact will be significant with the funding gap referred to above growing to a potential £20 million. Assuming a zero per cent council tax increase for the next three years the funding gap is £48 million or 37 per cent of the Council's budget.

41 The Local Government Finance settlement is expected in early December and will provide the detailed information on which the Council can base its future financial plans.

Mersey Gateway

42 After awaiting information from Government for much of the year, and following much lobbying from the Council and its members, the Mersey Gateway project has been given the go ahead by the Government. As already acknowledged by the Council the Mersey Gateway is a significant and challenging project that carries with it a number of risks, including financing and affordability.

43 I understand the detailed funding arrangements for Mersey Gateway are being discussed with ministers. I will review the proposed arrangements as part of my ongoing review of the project and its affordability.

Audit arrangements

44 On Friday 13 August, the Secretary of State for Communities and Local Government announced the proposed abolition of the Audit Commission and the transfer of the audit practice to the private sector. The proposed abolition will be from 2012/13 at the earliest and is subject to the passage of legislation.

45 Arrangements for the audit of local government bodies from 2012/13 onwards will be clarified when the government publish their white paper on the future of public audit. This is expected in early 2011.

46 My priority is to ensure our professional standards and commitment will be maintained for the 2010/11 and 2011/12 audits. You will see no deterioration in customer service and quality.

47 We are currently working on a proposal to develop an independent audit practice to continue beyond the abolition of the Audit Commission. Options available to us include a potential mutualisation or buy-out. Whatever the governance model that we adopt, we remain committed to providing excellent services to our existing clients, seeking new opportunities to improve financial management and reporting and helping the sector achieve better value for money.

Closing remarks

48 I have discussed and agreed this letter with the Strategic Director Resources and the Operational Director Finance. I will present this letter at the Executive Board on 2 December 2010 and will provide copies to all Board members.

49 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit fee letter	April 2009
Opinion audit plan	March 2010
Annual governance report	September 2010
Opinion on the financial statements	September 2010
Value for money conclusion	September 2010
Annual audit letter	November 2010

50 The Council has taken a positive and helpful approach to our audit. I wish to thank the Council's staff for their continued support and cooperation during the audit.

Mike Thomas
District Auditor

November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£181,161	£177,161	£4,000*
Value for money	£62,247	£62,247	n/a
Total audit fees	£243,408	£239,408	£4,000
Non-audit work	n/a	n/a	n/a
Total	£243,408	£239,408	£4,000

* 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.

Appendix 2 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

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; and
- whether they have been prepared properly, following the relevant accounting rules.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

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 money, people and time.

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