Annual governance report

Halton Borough Council

Audit 2010/11

audit commission

Contents

Traffic light explanation

Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. 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.

	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

I plan to issue an unqualified audit opinion on the 2010/11 financial statements by 30 September 2011.

- The 2010/11 statements were prepared under International Financial Reporting Standards for the first time.
- The initial set of statements submitted for audit was incomplete and contained a number of errors. The second version was better presented but still contained some errors and internal inconsistencies.
- Two material errors were identified at audit, neither of which affected the reported year end financial position.
- Excellent liaison with officers during the audit with full and prompt responses to all audit queries.
- Good quality working papers to support the entries in the accounts.

Value for money

The Council has proper arrangements in place to secure value for money.

- Like most other public sector organisations the Council faces significant financial challenges in 2011/12 and 2012/13. Whilst the Council has a proven track record of maintaining spend within budget securing financial resilience in the future will be a major task. Continued close control and monitoring of spend is needed through the remainder of 2011/12 to minimise the risk of a budget overspend at year end.
- The process of identifying saving opportunities to meet the £15m funding gap for 2012/13 is underway but further work is needed to ensure a fully identified savings plan is in place for the 2012/13 budget.
- Funding arrangements for Mersey Gateway are not yet finalised and may impact upon the Council's longer term financial resilience.

Before I complete my audit

I confirm to you my independence and the scope of my audit work.	My report 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. **Independence** I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity. The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.
I ask you to confirm to me that you have agreed the letter of representation and approved the financial statements.	**I ask the business efficiency board to:** ■ take note of the adjustments to the financial statements which are set out in this report (Appendix 2); ■ agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors (Appendix 3); ■ approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion; 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

The financial statements were prepared under IFRS for the first time.

The initial set of statements submitted for audit was incomplete and contained a number of errors. The second version was better presented but still contained some errors and inconsistencies.

Excellent liaison with officers during the audit with full and prompt responses to all audit queries.

Good quality working papers to support the entries in the accounts.

Two material errors identified at audit, neither of which affected the reported year end financial year.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements on 29 September 2011. Appendix 1 contains a copy of my draft report.

As you will be aware this is the first set of financial statements that officers have had to prepare under the new International Financial Reporting Standards (IFRS). The introduction of IFRS required officers to restate balances from 1 April 2009 as well as to collect and analyse information not recorded or disclosed under the previous accounting regime. Officers took advantage of the additional time provided by the changes in the accounts approval process for 2010/11 to prepare the Council's financial statements (the Abstract). The first version of the Abstract was approved by the Operational Director – Finance by the 30 June deadline and was submitted for audit on 1 July.

The first version of the Abstract was incomplete, contained a number of errors and was not fully IFRS compliant. My audit team provided a schedule of issues to officers. The second Abstract was submitted for audit on 7 July. This was better presented and more complete although it still contained a number of omissions and internal consistency errors.

My audit team received excellent co-operation and support from your finance team. Your officers responded promptly and fully to all audit queries and requests for additional information. They also provided good working papers to support entries in the Abstract.

Errors in the financial statements

My audit identified two material disclosure errors, both of which have been amended. My audit testing also identified a number of other 'non-trivial' errors. Appendix 2 provides a detailed list of the amendments to the Abstract.

Officers have decided not to amend two errors. One relates to an overstatement of £1.5m on short term debtors and the other relates to an understatement of £1.9m on the value of land and buildings on the balance sheet. See Appendix 3 for the detail. I have asked officers to include within the letter of representation the reasons for not amending the accounts for these errors.

Recommendations

Recommendations
R1 Ensure that the 2011/12 Abstract is prepared ahead of the 30 June deadline to allow completion of a comprehensive quality assurance review before submission to audit.
R2 To comply with the Accounts and Audit Regulations 2011 the Operational Director – Finance should sign a full set of financial statements and associated notes by 30 June of the relevant year.

Financial statements

Audit risks

I identified four key risks:

- **Transition to IFRS: component accounting;**
- **Transition to IFRS: segmental reporting;**
- **Accounting for the costs associated with Mersey Gateway; and**
- **Accounting for equal pay.**

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. The risks and my audit findings are outlined below.

Key audit risk	Findings
Transition to IFRS accounts: component accounting for material items of property, plant and equipment Component accounting is a new requirement in 2010/11 and the guidance is complex with a degree of subjectivity allowed. A multidisciplinary approach is needed to ensure guidance is appropriately applied and property, plant and equipment is not materially misstated in the accounts.	The objective of component accounting is to ensure that depreciation is charged to the Comprehensive Income and Expenditure Statement (CIES) on a systematic basis reflecting the pattern in which the economic benefits of the asset/component are used. Each item of property, plant and equipment with a cost that is significant in relation to the total cost is depreciated separately. My team reviewed your policy for componentisation and substantively tested a sample of property valuations and associated depreciation charges with no issues arising. Your property, plant and equipment is valued by your own qualified in-house valuers on a five year rolling programme. There is scope to strengthen the arrangements in place by providing your valuers with formal written instruction on the requirements for each valuation.
Transition to IFRS accounts: segmental reporting of income and expenditure A new disclosure for 2010/11 which requires additional analysis of the financial outturn data.	IFRS requires bodies to identify and report on their operating segments. A segment must be reported separately if its gross income or gross expenditure is 10% or more of the totals within the net cost of services line within the CIES.

	My team reviewed your methodology for segmental reporting. The initial version of financial statements omitted the required disclosure note and the second version reported the 2010/11 income and expenditure figures over three directorates rather than the four directorates which were operational during the year. The new three directorate structure did not come into effect until 1 April 2011. The accounts have been amended.
Accounting for the costs associated with Mersey Gateway Mersey Gateway is a fairly unique scheme with high value transactions. It is also a complex accounting area where we have required material changes to accounting treatment in previous years.	My work on Mersey Gateway is ongoing. The Council has included £821,000 of costs relating to Mersey Gateway within its 2010/11 accounts. These costs have been accounted for as capital expenditure. The accounting treatment is still under consideration and may not be resolved until after I issue my audit opinion later this month. The costs included in 2010/11 are not material and would not therefore prevent me from giving my audit opinion. It is important however that this issue is resolved as development costs may well be material in 2011/12.
Accounting for equal pay Specific guidance has to be followed. Potentially high value area where affordability may be an issue.	Equal pay continues to be a high profile and potential costly issue. I have had ongoing dialogue with the Operational Director – Finance during the year on both the affordability and accounting treatment of equal pay costs. Equal pay costs are covered in the accounts by a combination of actual expenditure and a provision, reserve and contingent liability disclosure note. My audit team requested several amendments to the equal pay note. They requested more detail within the provisions note on the number of claims and when payment is expected and a reduction in the value of the contingent liability from £4m - £8m to £1.5m - £2m.

The contingent liability note should only relate to potential costs not already included in the accounts and any costs incurred in respect of claims received in the next two years. The worst case scenario figures on equal pay costs for the Council total some £8m, of which £6.5m is already covered by entries in the accounts. The accounts include payments of £0.41m, a provision of £1.51m and a reserve of £4.45m. The contingent liability note has been amended.

Financial statements

Significant weaknesses in internal control

My audit has not identified any significant weaknesses.

I have not identified any significant weaknesses in internal control during the course of my audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Financial statements

Quality of your financial statements

I have identified aspects of your accounting practices which require strengthening.

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

I have already highlighted qualitative issues relating to the first year of IFRS at page 5, outlined below are the other issues I wish to raise with you.

Issue	Findings and recommendations
Property, plant and equipment	There was no reconciliation between the general ledger and the asset register at year end. This reconciliation is a critical control to ensure the completeness and accuracy of the asset (property, plant and equipment) information disclosed in the accounts. At my request officers provided the reconciliation part way through the audit. The reconciliation highlighted a classification error of £1.659m between surplus assets and assets under construction (AUC). Note 9 to the accounts has been amended to reflect the correct categorisation. Officers should reconcile the general ledger to the asset register as part of the accounts closedown process and should use this to inform completion of the accounts.
Allocation of expenditure between years	Expenditure incurred late in the financial year or early in the following financial year can be coded in error to the wrong year. My sample testing of payments made in March and April 2011 identified one such error. A 2010/11 invoice for £180k had been incorrectly coded as 2011/12 expenditure. Additional testing by finance staff identified one further error of £174k. The extrapolated error based on the sample testing indicates a

	potential error, and understatement of 2010/11 expenditure, of £1.5m. The two coding errors have been corrected in 2011/12. Officers will once again remind staff of year end allocation processes as part of next year's accounts closedown guidance.
Estimates	Generally satisfactory processes are in place to support the estimates contained in the Abstract. However my audit team identified scope to strengthen the methodologies for calculating the bad debt provision for NNDR and council tax. The provision for NNDR has been calculated using 100% of outstanding arrears from 2000 to 2008, 50% for 2009 and 33% for 2010. This process has not changed for a number of years. At the very least the provision should be reviewed to take account of actual recovery rates. The methodology for calculating the council tax provision is reasonable but the reports used need to be revised. The reports currently include credits and costs, the bad debt provision should be calculated net of these items. The impact of including these items is not material for 2010/11.
Related party transactions	I requested some amendment to the disclosure note within the accounts to make it more compliant with the IFRS Code. The Council has a system in place for collecting related party transactions and completing the note but the process needs to be strengthened. Members and officers should provide more detailed information on their related party interest. The risks relating to the declaration should be considered and evidenced within the register of interests and action taken to minimise the risks recorded. This would aid completion of the year end disclosure for the accounts.

Annual Governance Statement

The Council's Annual Governance Statement meets CIPFA's minimum requirements. The disclosures within it are consistent with the information I am aware of from my audit of the financial statements.

Significant matters that were discussed or subject to correspondence with management

During the year I have had regular discussions with officers about progress and issues relating to the Mersey Gateway scheme. These discussions are ongoing and are currently focussing on the accounting treatment of development costs and affordability. My audit team are awaiting further information on development costs from officers. I will consider the additional information and, if the information is provided in time, I will provide an update in my annual audit letter later this year.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. The draft letter of representation is available as a separate document.

Recommendations

Recommendations
R3 Ensure a reconciliation between the asset ledger and general ledger is incorporated within the accounts closedown plan and use the output to prepare the accounts.
R4 As part of the accounts closedown process ensure costs are allocated to the correct year.
R5 Build in consideration of actual recovery rates into the methodology for calculating the bad debt provision for NNDR. Ensure reports used to calculate the bad debt provision for council tax are net of credits and costs.
R6 Improve reporting of related party interests by members and officers. A senior officer should consider the risks relating to the declaration and record the action taken to minimise the risk.

Value for money

I am required to conclude whether the Council has put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Value for money

The Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Council has a proven track record of maintaining spend within budget but securing financial resilience in the future will be a major task. Continued close control and monitoring of spend is needed throughout the remainder of 2011/12 to minimise the risk of a budget overspend at year end.

The process of identifying savings opportunities to meet the £15m funding

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My findings and conclusion on each of the two areas specified in 2010/11 are below.

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

Criteria	Findings
1. Financial resilience **The organisation has proper arrangements in place to secure financial resilience.** Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	General fund expenditure is managed well across the Council, with a recognition that managing spending and securing a stable financial position is not simply a finance function but is an integral part of effective performance management. Systems and processes are well established but also continue to change and develop to suit changing circumstances. In September 2010, and in response to the Government's June 2010 emergency budget, the Council revised its 2010/11 budget to reflect the required in-year reductions to its government and other grants of some £6.8m. It identified a number of actions to address the funding shortfall and delivered against these, once again keeping overall spend within budget for the year. At 31 March 2011 general fund balances totalled £7.367m, just over 6.5% of net expenditure. There is no correct level of balances. It is up to each organisation to determine its own level based on an assessment of the potential risks that could result in a call on those balances, and this could change from year to year.

gap for 2012/13 is underway but further work is needed to ensure a fully identified savings plan is in place for the 2012/13 budget.

Funding arrangements for Mersey Gateway are not yet finalised and may impact upon the Council's longer term financial resilience.

There is scope for officers to revisit the Council's reserves and balances strategy to more explicitly link the planned level of balances to a risk assessment.

Like much of the public sector the council is facing significant financial pressures. The Council sets its annual budget in the context of a medium term financial forecast (MTFF) which covers a three year period. The most recent MTFF 2011/12 to 2013/14 was produced in November 2010. This identified a potential funding gap of £48m over the three year period. For 2011/12, the first year covered by the MTFF, the Council has set a balanced budget which includes savings of £13.853m. The main areas of savings include the ongoing efficiency programme (£2.8m), terms and conditions (£1.5m) and voluntary redundancies and early retirements (£1.3m). Directorate budgets also include significant savings targets amounting to £8.2m, some of which impact upon services, for example £105k from closure of a children's home, £80k from reducing library opening hours and £29k from closure of a day centre. First quarter monitoring reports for 2011/12 indicate the Council is on track to achieve its budget but in year pressures may still present challenges along the way. Close control and monitoring of spend is required through the remainder of the year to minimise the risk of a budget overspend at the end of March 2012.

The funding gaps for 2012/13 and 2013/14 are even more challenging. In 2012/13 the Council has set a savings target of £15m to bridge the gap and enable it to continue to set a balanced budget. The Budget Working Group (BWG) for 2012/13 held its first meeting on 24 March 2011, several months earlier than in previous years and an acknowledgement of the work needed to secure continued financial balance. Directorates are required to support any savings proposals with a service impact assessment. During August and early September the BWG is meeting with each of the three directorates to scrutinise their savings proposals and impact assessments for 2012/13. Although the process is underway savings of £15m have not yet been identified fully. Further work is needed to ensure a full and detailed savings plan is in place to support the 2012/13 budget.

One very significant issue for the Council in terms of ongoing financial resilience is Mersey Gateway. As members know it is a hugely complex and costly scheme

	which will have long term financial implications for the Council. Planning permission has been granted but funding arrangements have yet to be finalised. The Council is in ongoing dialogue with the Government and the outcome of these discussions may well test the Council's financial resilience going forward. The outcome of my review of the proposed accounting treatment of the development costs associated with Mersey Gateway may also impact upon the Council's financial resilience for the 2011/12 financial year.
2. Securing economy efficiency and effectiveness **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** Focus for 2010/11: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	Like most other public sector organisations the Council faces significant challenges to deliver services within tighter budgets particularly from 2011/12 onwards. To date the Council's efficiency programme has been key to helping it achieve cost reductions and improving efficiency. A strategic approach to reducing costs and improving value for money is evident through the Council's efficiency programme and budget setting process. The revised structures for transactional support services such as finance, HR, administration and procurement are in place and have resulted in cost savings and some improved process arrangements. The revised management structure, moving from four to three directorates, came into operation with effect from 1 April 2011. I have commented positively in previous value for money conclusion work about the Council's structured and methodical efficiency review methodology which also includes an evaluation stage following implementation. My view remains the same. Wave 1 efficiency reviews are now complete and have resulted in net savings of £3.2m. Wave 2 reviews as at June 2011 have delivered savings of £1.2m but several of the schemes are still in progress. Wave 3 reviews have been identified and are at outline business case stage with savings targets yet to be determined. There is evidence that the Council is addressing areas of high spend through the efficiency review programme. New service delivery options were explored as part of the Revenues & Benefits and Customer Services (HDL) review (wave 2), both services had been identified as high cost. The review resulted in savings of £487k, a reduction in staffing of 11.5 FTEs and placement of benefits officers

within contact centres to enable face to face delivery of the service. Following a 'bedding in' period indicators are that processing times for new claims and change in circumstances claims are both improving.

A new corporate charging framework is now in place and an efficiency review of income and charging is also underway. This is timely given two internal audit reports in 2010/11 on community meals and pest control. Both reports identified weaknesses in full cost recovery processes and made recommendations for improvement.

Much strengthened and improved procurement arrangements have been established via a centre of excellence. Procurement is now considered a key mechanism for delivering the efficiency programme and efficiencies in general across the Council. An e-tendering system, Due North (the Chest), has been introduced to advertise and manage all tender exercises and also aims to encourage procurement with local businesses. Between June 2010 and end of February 2011 136 new local businesses registered with the Chest, increasing local business numbers from 279 to 415. Since April 2010 the procurement team has reduced the Council's spend by just over £600k from a review and award of new contracts. More recent initiatives in 2011/12 include an increase in value thresholds within the Council's standing orders with the aim of generating potential savings through less bureaucracy and a more streamlined approach.

Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

There are no matters that I wish to draw to your attention.

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HALTON BOROUGH COUNCIL

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements of Halton Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, and 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Operational Director - Finance and auditor

As explained more fully in the Statement of the Operational Director – Finance Responsibilities, the Operational Director - Finance is responsible for the preparation of the Authority and Group's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Halton Borough Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Halton Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the Authority and Group accounts of Halton Borough Council 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

Audit Commission Office, 3rd Floor, Millennium House, 60 Victoria Street, Liverpool L1 6LD

September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement (CIES)		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Comprehensive income and expenditure statement (CIES) – exceptional item	As a result of the change in indexation of pensions from RPI to CPI a past service gain of £42.038m has been recognised as an exceptional item on the CIES. It has been incorrectly shown as a credit in the income column, it should be disclosed as a credit to the expenditure column. Reduce gross expenditure total from £405.291m to £363.253m. Net expenditure unaffected.		42,038		
Comprehensive income and expenditure statement (CIES) –	As last year the CIES includes the PCT's share of pooled budget	6,415	6,415		

		Comprehensive income and expenditure statement (CIES)		Balance sheet	
adult social care	income and expenditure of £6,415m. The CIES should only include the Council's income and expenditure on the three pooled budgets. Reduce Adult Social Care income and expenditure by £6.415m.				
Balance sheet – short term debtors and note 16	Debtors were originally reported gross in the balance sheet and its supporting note with the bad debt provision (BDP) of £7.351m included within general provisions at note 22. Debtors should be disclosed net of the £7.351m BDP. There is also a new requirement in 10/11 to show net debtors (debtor less BDP) by category within the debtors balance sheet note (note 16). Reduce the short term debtors balance by £7.351m. Expand disclosure within note 16 to show net debtor for each category of debt.			N/A	N/A
Balance sheet – property, plant and equipment (PPE) and note 9	Reclassification of a building (The Hive) from surplus assets to assets under construction (AUC).			N/A	N/A
Financial instruments – note 13	Amendments required to the financial instruments note to reflect the amendment made to debtors and the BDP. The financial instruments balances table has changed as	N/A	N/A	N/A	N/A

		Comprehensive income and expenditure statement (CIES)		Balance sheet	
	follows: current assets 31/3/10 from £35.043m to £25.225m and current assets 31/3/11 from £32.604m to £25.253m. The fair values of financial assets table has changed as follows: carrying value debtors and petty cash 31/3/10 from £35.607m to £26.778m and 31/3/11 from £24.643m to £17.292m; fair value debtors and petty cash 31/3/10 from £35.607m to £26.778m and 31/3/11 from £23.047m to £17.292m.				
Senior officers' remuneration – note 35	Several amendments to note 35 on senior officers' remuneration: salary for one officer who left part way through 2010/11 added, salary for one officer increased from £81,800 to £85,800 to include car allowance, several changes to pay bandings for officers who received redundancy payments in 2010/11 and additions and corrections made to narrative footnote disclosures.	N/A	N/A	N/A	N/A
Contingent liability – note 47	Contingent liability disclosure note for equal pay amended from £4m to £8m to £1.5m to £2m to reflect potential future liability.	N/A	N/A	N/A	N/A

		Comprehensive income and expenditure statement (CIES)		Balance sheet	
Cash flow statement – and associated notes 25, 26 and 27	2008/09 restated comparator for cash and cash equivalents at beginning of reporting period amended from £0.807m to £1.347m to reflect correct categorisation of finance leases from operating activities to financing activities. 2009/10 restated cash and cash equivalents amended from (£1.077m to £1.077m to remove incorrect brackets. 2010/11 net cashflows from operating activities amended from £10.531m to £7.424m to correct inconsistencies with the balance sheet. 2010/11 net cashflows from investing activities amended to include proceeds of £0.936m from sale of PPE. Note 26 amended. 2010/11 net cashflows from financing activities amended from £21.125m to £19.125m to reflect repayment of borrowings of £2m and be consistent with balance sheet.	N/A	N/A	N/A	N/A
The collection fund income and expenditure (I&E) account, balance sheet and disclosure notes.	The I&E account includes a provision for doubtful/bad debts of £454k. This includes £184k of write offs which should be disclosed separately.	N/A	N/A	N/A	N/A

		Comprehensive income and expenditure statement (CIES)	Balance sheet
	Reduce provisions by £184k and increase write offs of by £184k The cash figure of £324k on the Collection Fund Balance Sheet amended to reflect correct amount of £51k. Constituent amounts amended as follows: Halton from £273k to £43k, Cheshire Police from £35k to £6k and Cheshire Fire from £16k to £3k. Several amendments required to the following Collection Fund disclosure notes: apportionment of balances, note 2 on properties and band D equivalents and note 4 on non domestic rates.		
Group accounts	Amendments required to the group accounts to reflect the amendment made to Halton's main accounts in respect of debtors and the BDP. Group balance sheet: current assets from £34.493m to £27.142m and current liabilities from £52.257m to £44.905m. Group CIES: net cost of services from £112.774m to £112.213m, financing and investment income and expenditure from £4.268m to £4.829m, surplus 1/4/10 Council	As per detail in adjustment column.	

		Comprehensive income and expenditure statement (CIES)		Balance sheet	
	from £6.376m to £7.974m and surplus 31/3/11 Council from £6.828m to £7.906m.				
Other amendments	Various amendments and or enhancements to narrative within accounting policies to more fully comply with the requirements of IFRS. Addition errors on CIES and notes to the Abstract corrected. Internal cross referencing errors corrected.	N/A	N/A	N/A	N/A
Items omitted from first draft of the Abstract	Transition to IFRS note Movement in Reserves Statement Events after the balance sheet date (note 3) PPE note (note 9) Construction contracts (note 15) Unusable reserves (note 24) Segmental reporting note (note 28) Grant income (note 38) PFI and similar contracts (note 42) Impairment losses (note 43) Capitalisation of borrowing costs (note 44) Termination benefits (note 45) Detail relating to the following notes:	N/A	N/A	N/A	N/A

	Comprehensive income and expenditure statement (CIES)	Balance sheet
leasing, trading operations, audit fees, deferred capital receipts, contingent liabilities, post balance sheet events, analysis of net assets employed and trust funds. Gross income and expenditure values for CIES 2009/10 comparators.		

Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
The value of land and buildings is understated by £1.9m. Values for two properties were copied incorrectly from the valuation report.	Value of land and buildings on the balance sheet would increase by £1.9m.			1,900	
Debtor accruals are overstated by £1.508m. The year end debtor balance includes a capital accrual	Debtors would reduce by £1.508m				1,508

	Comprehensive income and expenditure statement	Balance sheet
of £1.508m in respect of a quarter 3 section 31 transport grant. This grant was received in 2010/11 and is not therefore a year end debtor to the Council.		

Appendix 4 – Glossary

Annual governance statement

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

Audit closure certificate

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 financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my 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.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

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 resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 5 – Action Plan

Page No	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	Ensure that the 2011/12 Abstract is prepared ahead of the 30 June deadline to allow completion of a comprehensive quality assurance review before submission to audit	3				
6	To comply with the Accounts and Audit Regulations 2011 the Operational Director – Finance should sign a full set of financial statements and associated notes by 30 June of the relevant year	3				
13	Ensure a reconciliation between the asset ledger and general ledger is incorporated within the accounts closedown plan and use the output to prepare the accounts	3				
13	As part of the accounts closedown process ensure costs are allocated to the correct year	3				
13	Build in consideration of actual recovery rates	3				

Page No	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	into the methodology for calculating the bad debt provision for NNDR. Ensure reports used to calculate the bad debt provision for council tax are net of credits and costs					
13	Improve reporting of related party interests by members and officers. A senior officer should consider the risks relating to the declaration and record the action taken to minimise the risk.	3				

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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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