



# The Audit Findings for Halton Borough Council

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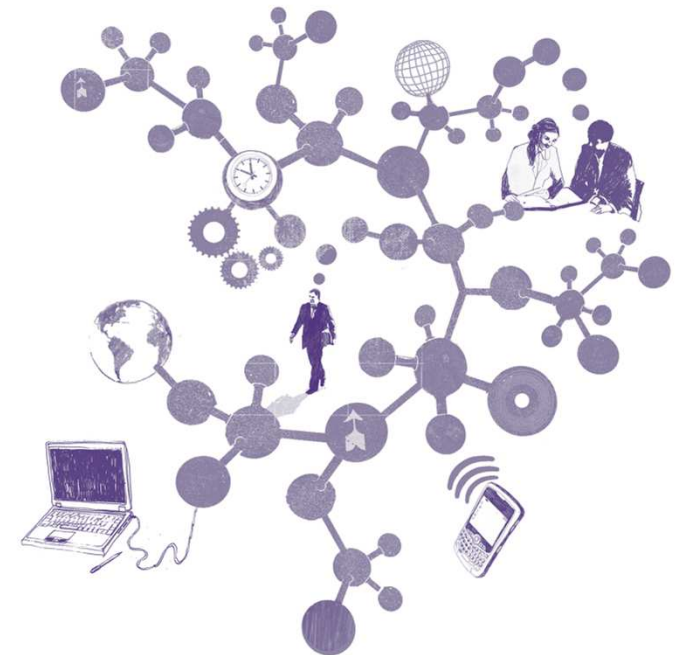
**Year ended 31 March 2013**

9 September 2013

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	4
2. Audit findings	7
3. Value for Money	19
4. Fees, non audit services and independence	24
5. Communication of audit matters	26

## **Appendices**

- A Action plan
- B Audit opinion

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## Section 1: Executive summary

**01. Executive summary**

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Halton Borough Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we made a change to our planned audit approach, which we communicated to you in our original Audit Plan dated April 2013. We had envisaged carrying out additional audit fee work on the Mersey Gateway project to support our value for money conclusion. Following further consultation within the firm and with the Audit Commission the scope of this additional work was scaled back and was contained within our original fee estimate and work programme. As a result we reduced our planned work and concentrated on a high level review of the Council's arrangements for managing the project and its affordability.

Our audit is substantially complete although we are finalising our work in the following areas:

- property, plant and equipment testing
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the audit opinion and
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

## Key issues arising from our audit

### Financial statements opinion

We expect to provide an unqualified opinion on the financial statements. Our audit work has not identified any adjustments affecting the Council's reported financial position. The draft and audited financial statements record net expenditure of £142m. We have agreed with officers a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the financial statements are:

- no significant issues were identified;
- the draft financial statements were provided at the start of our audit work and good quality working papers were made available;
- officers were available throughout our audit fieldwork to provide additional supporting information in a timely manner and resolved our queries promptly.

Further details are set out in section 2 of this report.

### **Value for money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified Value for Money (VFM) conclusion.

Further detail of our work on VFM is set out in section 3 of this report.

### **Whole of Government Accounts**

As at 9 September we have not received the Council's Whole of Government Accounts (WGA) submission. We will work with officers to complete our audit work on WGA in accordance with the national timetable.

### **Controls**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Our work has not identified any control weaknesses which we wish to highlight for your attention, except for some minor IT control weaknesses.

Further details are provided within section 2 of this report.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Strategic Director Policy & Resources and the Operational Director Finance.

We have made several recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Operational Director Finance and the finance team.

### **Acknowledgment**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**September 2013**

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## Section 2: *Audit findings*

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Business Efficiency Board on 22 May 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 22 May except for the proposed additional fee work on Mersey Gateway to support our VFM conclusion. At the planning stage of the audit we envisaged completing a separate detailed review of your arrangements for managing the Mersey Gateway project, particularly with regard to affordability. We agreed a project brief and additional audit fee with officers early in 2013. However, following further consultation within the firm and with the Audit Commission the scope of this additional work was scaled back and was contained within our original fee estimate and work programme. As a result we reduced our planned work and concentrated on a high level review of the Council's arrangements for managing the project and its affordability.

We therefore revisited our planned audit work and reduced our coverage to a high level review of the Council's arrangements, placing reliance where we could on the work of Internal Audit. The findings from our work are summarised at section 3.

## **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion. Our draft audit opinion is set out in Appendix B.

## **Letter of Representation**

We have provided the Council with a suggested letter of management representation, this is included at Appendix C.



## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks (items 1 and 2 below) which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journals entries</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>
3.	<p><b>Incorrect capitalisation of costs associated with the Mersey Gateway project</b></p> <p>Accounting standards and CIPFA guidance set out the criteria to be applied when capitalising costs in the financial statements. For some costs there is an element of judgement as to whether they should be accounted for as capital or revenue.</p>	<ul style="list-style-type: none"> <li>• discussion with the Council's finance team about their approach in 2012/13 and their response to the recommendations contained within the 2011/12 Annual Governance Report</li> <li>• review of the accounting methodology applied in 2012/13</li> <li>• testing of a sample of transactions to confirm compliance with accounting standards</li> </ul>	<p>The Council capitalised £300k of development costs in 2012/13, a much smaller amount than in previous years. Our audit work has not identified any significant issues with the development costs capitalised this year. It is important however, that the Council continues to apply accounting standards when determining whether costs associated with the Mersey Gateway project should be charged to capital or revenue, and that they retain the evidence to support their judgement.</p>

## Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Operating expenses understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• tested operating expenses including for: unrecorded liabilities, whether the expense is valid, that the cost is recorded in the correct expenditure code and that VAT has been correctly treated.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• substantive testing of year end creditors, including:                             <ul style="list-style-type: none"> <li>- testing a sample of creditors</li> <li>- attribute testing of a sample of expenditure</li> <li>- cut off testing on a sample of expenditure</li> </ul> </li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

## Audit findings against other risks




Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Employee remuneration</b>	Remuneration expenses not correct	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• substantive testing of employee remuneration expenditure covering existence, occurrence and valuation</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Welfare expenditure</b>	Welfare benefits improperly computed	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• substantive testing of welfare expenditure via our certification work on the housing and council tax benefit subsidy return</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Property, plant &amp; equipment</b>	PPE activity not valid	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• substantive testing of property, plant and equipment including existence, additions and disposals</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

## Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Property, plant &amp; equipment</b></p>	<p>Revaluation measurement not correct</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• reviewed the principles and methodologies used by the Council in its cyclical valuation exercise</li> <li>• substantive testing of property, plant and equipment revaluations</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified</p>

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Income is accounted for in the year the activity it relates to takes place, i.e. on an accruals basis.</li> <li>Income is recorded when it is earned and not received</li> </ul>	<p>The Council's approach to accounting for income is robust and in accordance with sector practice.</p> <p>Disclosure of the revenue recognition policy is adequate .</p>	
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>– useful life of capital equipment</li> <li>– pension fund valuations and settlements</li> <li>– revaluations</li> <li>– impairments</li> <li>– provisions</li> </ul> </li> </ul>	<p>Where the Council has made judgements or estimates in the financial statements, these have been generally supported with methodologies, and clear explanations of the assumptions applied.</p> <p>Our testing identified two estimates, the council tax bad debt provision and the debtor impairment, for which appropriate methodologies existed but which were not followed in determining the amounts to include within the financial statements. In both instances the values calculated by the methodologies were less than the value included within the statements . The values included in the statements have been inflated to reflect potential non payment in 2013/14. Accounting rules specifically state that expected losses as a result of future events, no matter how likely, should not be recognised in the current year accounts.</p> <p>The council tax bad debt provision included in the financial statements is overstated by £342k and the debtor impairment is overstated by some £1.7m.</p> <p>Disclosure of judgements and estimates is considered appropriate subject to the overstatement highlighted above.</p>	
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</p>	

**Assessment** ● Marginal accounting policy which could potentially attract attention from regulators ● Accounting policy appropriate but scope for improved disclosure  
 ● Accounting policy appropriate and disclosures sufficient

## Adjusted misstatements

We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. There are no adjustments to the draft financial statements that have been identified during the audit process.

## Unadjusted misstatements

We have not identified any unadjusted misstatements.

## Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Presentation	n/a	Various	The draft accounts presented for audit contained a number of typographical errors, arithmetic roundings and errors and missing or incorrect references. The draft version also included an incomplete note on investments (note 23) and omitted the company accounts relating to the bus company. The accounts have been amended to reflect the issues identified.
2 Disclosure	9,138	Note 4 Grant Income Credited to Services	Other contributions initially disclosed as £6,138k in note 4. This was incorrect and inconsistent with the value of £9,138k reported in the CIES. Note 4 has been amended to reflect the correct amount.
3 Disclosure	n/a	Note 17 Non-current Assets, Property, Plant & Equipment	Note 17 amended to include the date of the 20 12/13 valuation and the name of the valuer
4 Disclosure	various	Note 17 Non-current Assets, Property, Plant & Equipment	Additional disclosure added relating to the school PFI (the Grange) which became operational in April 2013.
5 Disclosure	20,045	Note 30 Short term borrowing	Additional disclosure added to Note 30 to support the short term borrowing figure of £20.045m on the balance sheet.
6 Disclosure	118,309	Note 32 Other long term liabilities	Additional disclosure added to Note 32 to support other long term liabilities of £118.309m on the balance sheet.

## Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
7	Disclosure	various	Collection Fund	Collection Fund Note 2 on Council Tax Determination contained a number of calculation errors due to incorrect property numbers being used within each banding. The note has been amended to reflect the correct number of properties and correct values.



# Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. As part of our planned programme of work, our information systems specialist team undertook a high level review of the general IT control environment at the Council. This was undertaken as part of the review of the internal controls system. We are pleased to report that no significant issues arose from our work, however, we identified a couple of minor areas where the Council's existing IT arrangements could be further developed. These are highlighted below.

	Issue and risk	Recommendation and management response
1.	<p>Network and application logical access control - we were not able to fully assess the logical access parameters governing access to the network and Northgate application as no documentary evidence was provided. From the information provided at interview the following security settings are also not enforced best practice: minimum password length (Payroll and Revenues and Benefits); password complexity (Payroll and Revenues and Benefits) and unlimited attempts for password input - no lockout (Payroll). Without adequate security controls over the underlying database such as appropriate password parameters, there is an increased risk of unauthorised access to the database leading to unauthorised amendment and the possibility that the integrity of the data will be compromised which could lead to financial loss to the organisation.</p>	<p>Management should confirm</p> <ul style="list-style-type: none"> <li>the settings for password controls for the network and Northgate application.</li> <li>consider implementing and enforcing a stricter password policy for the Revenues and Benefits application and ensure that adequate logical access controls are implemented in the upgraded Payroll application.</li> </ul> <p>Response: Accepted. If access controls for these systems was single sign on, as it is for Agresso, then the password complexity, force change, minimum length would all be enforced using Active Directory Group Policy. The Council will review the potential to enforce single sign on for these systems.</p>
2.	<p>Lack of periodic access rights review - although one-off reviews of access rights are currently underway due to system changes, there is no evidence of reviews of user access for the network or the financial applications being completed on a regular basis. If periodic reviews of user accounts are not conducted on a regular basis, there is a risk that dormant user accounts could be exploited to gain unauthorised access to the organisations systems. Furthermore, there is a risk that network access rights may become disproportionate over time to the users responsibilities.</p>	<p>Management should consider implementing a formal process to review user access to the network and the financial applications on a regular basis to ensure access is appropriate based on job functions and all terminated users have been appropriately removed</p> <p>Response Accepted. The Council has completed a full review of all network users and has deleted all accounts in June 2013. There is a review of Agresso user accounts on-going as at June 2013.</p>

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our audit identified a number of disclosure issues which have been corrected by management, see page 15 above.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non audit services and independence

05. Communication of audit matters

# Value for Money

## Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council 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.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

We have produced a separate report on Financial Resilience. This sets out our detailed findings on the Council's arrangements for securing financial resilience. Our summary findings are outlined below.

Our overall conclusion is that the Council has good arrangements in place for securing financial resilience. The Council has a proven track record of keeping expenditure within budget. Systems and processes are well established and there is a structured approach to identifying and managing budget pressures. This framework provides a sound basis for the Council to move forward but there is no doubt that it will be challenged as the requirement for significant savings continues into the medium term.

The 2013/14 budget includes savings of £8.605m. The 2013/14 first quarter finance reports suggest these savings will be achieved. The funding shortfall for 2014/15 is £11m, the major part of which will need to be met through further cost savings. Members and officers are currently in the process of identifying and agreeing savings proposals, with the first tranche of proposals expected to be agreed in December 2013.

The Council's Medium Term Financial Strategy (MTFS) is updated annually as part of the budget setting process. The next iteration will extend to 2016/17. As yet the MTFS does not take account of the projected income and costs of the

# Value for Money

## **Key findings continued**

Mersey Gateway project (outside of the development and land acquisition costs). The Council have recently selected a preferred bidder and anticipate the Mersey Gateway bridge being operational in 2017. Financial plans and forecasts for the project include detailed modelling of projected income levels and costs. These have yet to be incorporated into the Council's MTFS.

Our financial resilience report highlighted several areas where the Council's current arrangements could be further strengthened. A completed action plan is included within the report.

## **Challenging economy, efficiency and effectiveness**

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. We have completed a detailed risk assessment and undertaken a high level review of your arrangements for managing the risks associated with the Mersey Gateway project, particularly those related to affordability. Internal Audit completed a review of the project's procurement arrangements. The draft report is currently with management.

Our detailed risk assessment did not identify any issues which would impact on our proposed unqualified vfm conclusion. Our review of your Mersey Gateway arrangements confirmed that the project continues to present a number of financial risks and challenges, some of which are summarised below. We have concluded that the Council's arrangements for managing these risks are adequate. Given the size and complexity of the project it is important that the Council continues to monitor, manage and mitigate the risks and ensure the project remains affordable.

## ***Funding risks***

In June 2013 the Council announced its preferred bidder, Merseylink, with financial close on the project expected before the end of 2013. The Conditional Funding Approval received in 2010 confirmed the availability of up to £470m of Government funding for the project. The Council is to make a capital contribution of approximately £120m to the project at the end of the construction period (planned to be funded by Prudential Borrowing), and is also to pay an annual Unitary Charge to the operator.

The Unitary Charge payment will be partly funded by the Government's revenue support grant, with the balance funded by toll revenues. The Council retain the toll revenue risk under the proposed arrangement. This is a significant risk, with uncertainty regarding traffic volumes under a tolling regime for the next 30 years. However, we understand from officers that the Department for Transport (DfT) has recently agreed to support the Council in managing toll revenue risk by increasing the revenue support grant should the actual traffic volumes turn out to be lower than the estimated levels. In addition, under the proposed Open Road Tolling system, there is a higher incidence of non-payment. The tolling risk is mitigated to a certain degree because the funding model is based on a very prudent estimate of traffic volumes.

The Council asked bidders to submit two separate bids, one of which was to include a Demand Management Participation Agreement (DMPA). The DMPA is a way in which bidders can participate in the toll revenues and fines. It also asks the operator to take the enforcement risk, in exchange for an interest in the fines collected and potentially a higher service charge. One of the other key benefits of the DMPA is that it utilises the specialist skills and experience of the toll operators within the bidding consortia.

# Value for Money

## **Key findings continued**

### ***Development Costs***

The Council established an original development cost budget to cover the period up to April 2013. Additional costs have been incurred due to extensions to the procurement period and a later than anticipated start to the procurement process. DfT confirmed an additional advance of £5m in 2012/13 to conclude the procurement process and reach financial close by the end of October 2013. If a delay becomes likely then the Council will once again approach DfT to fund the additional cost, with an estimated additional cost of £550k per month.

### ***Land Assembly***

During 2012/13 the Council has continued to make progress in its land assembly and remediation early works arrangements for the new bridge. The timing of the availability of the DfT Development Cost Grant means that the Council is borrowing to fund a large proportion of these costs prior to the scheme receiving final approval from DfT. The Council's expenditure on land assembly and remediation is 'at risk' if the project does not go ahead, although some of the costs could be recoverable on resale of assets acquired to date. DfT has formally agreed to review the situation with the Council if the project is halted, but this is on a 'no obligation' basis.

### ***Project Management***

Mersey Gateway is a major procurement for a unitary council, and there are limited internal resources and expertise to manage a project of this size and complexity. The Council has managed this risk through the use of a specialist Project Team consisting of consultants with heavy reliance on specialist advisor input. This is not unexpected. The resilience of the project team was strengthened in late 2011/12 with the appointment of a commercial Director and the extension of the Project

Director's contract. Experienced representatives from Infrastructure UK and DfT are also represented on the Officer Project Board, which provides valuable input, insight and feedback into the project.

### ***Post Contract - Governance Arrangements***

The Council has made good progress in developing a post contract close structure to manage its ongoing risks and responsibilities. The Mersey Gateway Crossings Board (MGCB) will be a special purpose vehicle created for the operational management of the Mersey Gateway project over its lifetime (upwards of 60 years). A detailed report on the proposed structure, initial budget and a draft governance agreement for the MGCB was presented to the November 2012 meeting of the Mersey Gateway Executive Board. A further 'next steps' report in July 2013 provided an update on the proposed governance arrangements during the Preferred Bidder phase and into the Construction phase.

One of the conditions for Government funding is for the Council to establish a 'Liquidity Reserve' for holding cash or cash equivalent assets at a minimum of 20% of the net revenues forecast for the following 12 months. The Council and the Crossings Board will need to consider the funding and cash flow impact of this requirement, particularly in the first year of operation of the new bridge.

There is also a time limit on the availability of Government funding. Ministers reserve the right to re-consider the funding offer if there are any significant changes to the scheme or the business case or if the Final Business Case has not been submitted for approval by 30 October 2014. In addition, there is a time limit on the development of 5 years from the date of the planning and TWA Order (December 2010).

# Value for Money

## **Key findings continued**

Mersey Gateway is a major project for a unitary council, with significant financial risks and challenges associated with it. It therefore remains important for the Council to continue to monitor, manage and mitigate these risks throughout the lifetime of the project.

## **Overall VFM conclusion**

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

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## Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters



## Fees, non audit services and independence

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

### Fees

	Per Audit plan £	Actual fees £
Council audit	139,322	139,322
Grant certification	14,350	*17,851
<b>Total audit fees</b>	<b>153,672</b>	<b>157,173</b>

The audit of the Council's 2012/13 grant claims and returns is not yet complete. The grant certification actual fee of £17,851 is an estimate of the fee required to complete the audit of the Council's grant claims. The variation from the planned fee relates to two grant claims which were not audited in 2010/11 and therefore are not included within the 2012/13 indicative fee. Both claims relate to local transport plan major projects – Silver Jubilee Bridge and Mersey Gateway.

### Fees for other services

Service	Fees £
Grant Thornton's tax team have provided tax advice to Halton BC for a number of years. The cost of this advice is normally in the region of £12,000 to £15,000 per year. However, in 2012/13 the costs totalled some £33,000. This increase related to specific tax advice on two projects, Daresbury and Wade Deacon High School.	33,300
In accordance with Ethical Standards we reviewed this matter and we are satisfied that there is no significant threat to auditor independence.	

### Independence and ethics

We confirm that there are no other significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
<b>Our communication plan</b>		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>Base the council tax bad debt provision included in the financial statements on actual recovery rates and levels of arrears with no inflation for the potential future effect of a fall in recovery rates.</p> <p>Base the debtor impairment included in the financial statements on the aged debt analysis and actual recovery rates with no inflation for the potential future effect of a fall in recovery rates.</p>	Medium		
2	<p>Continue to apply accounting standards when determining whether development costs associated with the Mersey Gateway project should be charged to capital or revenue expenditure.</p>	Medium		

## Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

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

#### **Opinion on the financial statements**

We have audited the financial statements of Halton Borough Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial 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 the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the Operational Director Finance and auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Operational Director Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us 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 financial statements sufficient to give reasonable assurance that the financial 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 Operational Director Finance; and the

overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:  
 give a true and fair view of the financial position of Halton Borough Council as at 31 March 2013 and of its expenditure and income for the year then ended;  
 give a true and fair view of the financial position of the Group as at 31 March 2013 and of its expenditure and income 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 2012/13.

#### **Opinion on other matters**

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

#### **Matters on which we report by exception**

We report to you if:  
 in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;  
 we issue a report in the public interest under section 8 of the Audit Commission Act 1998;  
 we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or  
 we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

#### **Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### ***Respective responsibilities of the Authority and the auditor***

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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

***Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources***

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, 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 us to consider under the Code of Audit Practice in satisfying ourselves 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 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are 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 ended 31 March 2013.

**Certificate**

We certify that we have completed the audit of the financial statements 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  
Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building  
LIVERPOOL  
L3 1PS

September 2013

# Appendix C: Letter of representation

## Letter of representation from the Council.

Grant Thornton UK LLP  
Royal Liver Building  
Liverpool  
L3 1PS  
September 2013

Dear Sirs

**Halton Borough Council**  
**Financial Statements for the year ended 31 March 2013**

This representation letter is provided in connection with the audit of the financial statements of Halton Borough Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii. We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iv. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- v. We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all

settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code requires adjustment or disclosure have been adjusted or disclosed.

ix. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

x. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

### Information Provided

xi. We have provided you with:

- a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- b. additional information that you have requested from us for the purpose of your audit; and
- c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xii. We have communicated to you all deficiencies in internal control of which management is aware.

xiii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xiv. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xv. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:



## Appendix C: Letter of representation

- a. management;
- b. employees who have significant roles in internal control; or
- c. others where the fraud could have a material effect on the financial statements.

xvi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

xvii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xviii. We have disclosed to you the entirety of the Council's related parties and all the related party relationships and transactions of which we are aware.

### **Annual Governance Statement**

xix. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

### **Approval**

The approval of this letter of representation was minuted by the Council's Business Efficiency Board at its meeting on 18 September 2013.

Signed on behalf of the Council

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

## Appendix D: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

### Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 22 May except for the proposed additional work on Mersey Gateway for our vfm conclusion.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None
Interest payable and similar charges	Borrowings	None		No	None

Audit findings

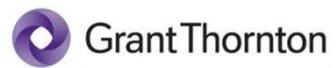
Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Dividend income from Joint Venture	Revenue			No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	Yes [see estimates at p13]
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income <sup>9</sup>	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	None
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	Yes [see estimates at p13]
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

## Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None



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