

Annual Governance Report

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Annual Governance Report

Halton Borough Council

Audit 2006/07

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Status of our reports

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

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

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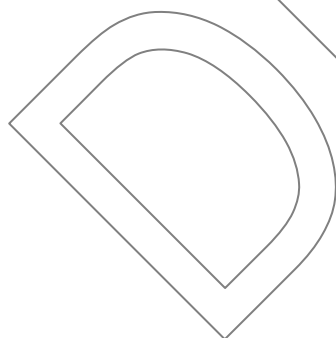
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Purpose of this document

- 1 This report has been prepared in accordance with the Audit Commission's Code of Audit Practice (the Code) and the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance'. It provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in this case the Executive Board). The Code also requires us to report the outcome of our assessment of the Council's arrangements for securing economic, efficient and effective use of its resources (the 'value for money conclusion') against 12 specified criteria as detailed in Appendix 7.
- 2 Other auditing standards require us to communicate with you in other specific circumstances including:
 - where we suspect or detect fraud;
 - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
 - non-compliance with legislative or regulatory requirements and related authorities.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for you to consider at the Executive Board meeting on 20 September 2007. At this meeting we invite you to:
 - approve the representation letter on behalf of the Council before we issue our opinion;
 - note the adjusted misstatements; and
 - note our recommendations for improvement in financial reporting and internal control.
- 5 Our work during the year was performed in line with the plan that we presented to you on 18 May 2006. We have issued separate reports during the year following completion of specific aspects of our programme, these are listed in Appendix 3.

Key messages

- 6 The 2006/07 financial statements were prepared ahead of the required deadline and to a good standard. We have completed our work on the statements and, subject to the receipt of the signed letter of representation, we will issue an unqualified audit opinion on 20 September 2007 (a draft report is attached at Appendix 4).
- 7 We have also completed our assessment of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources against the Audit Commission's 12 specified criteria and will issue an unqualified value for money conclusion on 20 September 2007 (a draft report is attached at Appendix 4).
- 8 Accounting standards are generally good but we have this year noted scope for more consistent application of the financial reporting standard on depreciation. We have no other issues to report to you under auditing standards and in our view the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 9 We have made some recommendations for improvements in financial reporting and internal control and these are included in the action plan at Appendix 1.
- 10 The Council has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Council's assistance and co-operation.



Accounts and Statement on Internal Control

- 11 We have completed our work on the Council's 2006/07 financial statements and subject to receipt of the signed letter of representation we will issue an unqualified audit opinion before the end of September.
- 12 The draft financial statements were produced in early June and approved by the Business Efficiency Board on 28 June, ahead of the 30 June deadline. The statements were prepared to a good standard and all audit queries and requests for additional information were responded to promptly.
- 13 As your auditors we are required to obtain written confirmation of certain representations from management and those charged with governance before our audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 14 We are also required to obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 15 The final draft of the letter of representation which deals with these issues and which we request is signed by the Leader and the Chief Executive is attached at Appendix 5.

Unadjusted misstatements

- 16 We are required to report to you any misstatement in the accounts that we have identified during the course of our audit, other than those that are clearly trivial, that remain unadjusted. There are no such unadjusted misstatements to bring to your attention.

Adjustments to the financial statements

- 17 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. These are recorded at Appendix 6.

Accounting practices

- 18 We are also required to report to you our view on the qualitative aspects of the Council's accounting practices and financial reporting and have set out below our observations on key issues affecting the Council.

- 19 We carried out a detailed review of the financial statements against the CIPFA Statement of Recommended Practice (SORP) disclosure checklist. A number of minor deviations were identified and these have been corrected.
- 20 The Council's accounts not only need to follow the CIPFA SORP, they also need to comply with relevant financial reporting standards (FRSs). The emphasis on FRS compliance within local authority accounting has increased over recent years and is set to become even more important with the introduction of the international financial reporting standards (IFRSs) from 2008/09 onwards. The Council's current accounting policy for depreciating infrastructure assets does not fully comply with 'FRS 15: Tangible Fixed Assets'.
- 21 Currently the Council depreciates its infrastructure assets over an estimated economic useful life of 15 years. Some infrastructure assets that transferred from Cheshire County Council to Halton BC several years ago have shorter economic lives although depreciation has been charged against these assets using the standard 15 year approach. Consequently, at the end of their economic life there remains a back-log of depreciation not charged and this back-log depreciation has been written off in the final year along with the normal annual charge. Currently there is approximately £2m of such back-log depreciation within fixed assets, of which some £275k relates to 2006/07.
- 22 Officers have agreed to conduct a formal review of asset lives and depreciation rates in 2007/08 in order that depreciation can be charged correctly to future periods.

Systems of internal control

- 23 As part of our audit we consider the systems of accounting and financial control and if we identify any material weaknesses we report these to you. Members should note that we have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.
- 24 We work closely with Internal Audit (IA) and place assurance upon their work where we can. As last year, their work has once again provided us with assurance on the reliability of internal control procedures within material financial information systems.
- 25 We are pleased to report that we have not identified any material control weaknesses but we wish to draw your attention to one particular issue in connection with your systems of internal control.

- 26 In June 2007 IA reported that they could provide only limited assurance on the controls within the newly implemented Trent payroll system. Payroll is a significant financial system and as such it is important that its controls operate effectively. IA conducted their work shortly after the introduction of the Trent system and at a time when work on the system was on-going. Although they concluded that some material controls were not operating no significant errors were identified. Internal Audit were able to give adequate assurance on the predecessor system, Delphi, which had operated for the early part of the 2006/07 year. IA' s report on the payroll system contained an action plan with seven recommendations, all of which we endorse.
- 27 We have also reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There are no matters arising in connection with this aspect of our audit.

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Use of resources

Work performed

- 28** The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion comprises of the following elements:
- use of resources assessment;
 - data quality work; and
 - the best value performance plan.

VFM conclusion

- 29** Our conclusion is that the Council has met the required standard for each of the 12 criteria specified by the Audit Commission. These are detailed in Appendix 7.
- 30** In a number of areas the Council has performed above the required standard and in particular has good arrangements in place for financial management, financial standing and internal control. In other areas as well the Council has strengthened its arrangements over the last twelve months. Two specific areas are worthy of note as follows.
- **Consultation** - the Council has good consultation arrangements which have informed the development and revision of the high-level priorities. There has been good progress on improving services for hard to reach groups. This is reflected in an increase in childcare places and more adults and young people accessing training. These are important areas that contribute to the Council's wider community priorities.
 - **Risk management** - the Council's arrangements have been evolving and improving and are being embedded throughout the Council's operation. Arrangements are being implemented to ensure that Directorate and Corporate Risk registers are reviewed each quarter with updated versions being made available on the Council's intranet and website. Risk management training is planned for members of the Business Efficiency Board which has responsibility for the effective development of risk management and corporate governance throughout the Council.

- 31 We will further evaluate the Council's progress as part of our use of resources assessment which is being carried out during September and October 2007. Our work on data quality is also being completed and we expect to report this in October 2007. There are no issues to report in relation to our work on the best value performance plan.

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Audit fee update

- 32 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan:

	Plan 2006/07	Actual 2006/07
Financial statements and Statement on Internal Control	£133,829	£133,829*
Use of Resources	£61,006	£61,006*
Total Audit Fees	£194,835	£194,835
Grants certification work	£85,000	£85,000*
Other work	£16,221	£4,000

* = Anticipated fee based on information up to and including 31 July 2007

- 33 The analysis above shows that we expect our audit fee to be contained within the totals you have already agreed.
- 34 The outturn on inspection fees will be reported in the annual audit and inspection letter.

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Appendix 1 – Action plan

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
8	Conduct a review of the useful economic lives of Infrastructure assets and amend depreciation rates as required to write off the remaining book value over their revised useful economic lives.	3	Chief Accountant	Yes	Re-calculation of depreciation completed for infra structure assets, other groups of assets to be addressed along with the rolling programme of re-valuations	March 2008
8	Implement the 7 recommendations made by Internal Audit with Regard to the Trent Payroll system	3	Principal Personnel Officer Project Team Systems Co-ordinator Payroll Manager	Yes	Many of Internal Audit recommendations already in place.	December 2007

Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 We are required to communicate the following matters to those charged with governance:
 - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Council, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.

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Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit plan	31 March 2006	Draft April 2006 Final July 2006	Executive Board
Interim audit memorandum	July 2007	Findings to be reported within the Final accounts memorandum in October 2007	Management
Annual governance report	September 2007	September 2007	Executive Board
Opinion on financial statements	September 2007	September 2007	The Council
Use of resources conclusion	September 2007	September 2007	The Council
Final accounts memorandum	October 2007	Planned for October 2007	Management
BVPP report	October 2007	Planned for October 2007	The Council
Data quality report	October 2007	Planned for October 2007	Management
Annual audit letter	14 January 2008	Planned for 14 January 2008	The Council

Appendix 4 – Proposed auditor's report

Independent Auditor's Report to Halton Borough Council

Opinion on the Financial Statements

We have audited the financial statements of Halton Borough Council and its Group for the year ended 31st March 2007 under the Audit Commission Act 1998, which comprise the Income and Expenditure Account, the Statement of Movement on the General Fund, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement, the Group Accounts, the Housing Revenue Account, the Collection Fund, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Halton Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective Responsibilities of Operational Director – Financial Services (as Chief Finance Officer) and Auditors

The Operational Director – Financial Services' responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

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

We report to you our opinion as to whether the financial statements present fairly the financial position of the Council in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

We review whether the Statement on Internal Control reflects compliance with CIPFA's guidance The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword and the Summary of the Council’s Accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (U.K. and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimated and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Council and its Group as at 31st March 2007 and its income and expenditure for the year then ended.

Conclusion on Arrangements for Securing Economy, Efficiency and Effectiveness in the Use of Resources

Council’s Responsibilities

The Council 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 regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Council is required to prepare and publish a Best Value Performance Plan summarising the Council's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council 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 in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for Principal Local Authorities. We report if significant matters have come to our attention which prevent us from concluding that the Council has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by Section 7 of the Local Government Act 1999 to carry out an audit of the Council's Best Value Performance Plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the Plan has been prepared and published in accordance with statutory requirements set out in Section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under Section 7 of the Local Government Act 1999.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for Principal Local Authorities specified by the Audit Commission and published in July 2005, in all significant respects, Halton Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31st March 2007.

Best Value Performance Plan

We issued our statutory report on the audit of the Council's Best Value Performance Plan for the financial year 2006/07 on 1st December 2006. We did not identify any matters to be reported to the Council, and we made one recommendation relating to quality control procedures followed when preparing the Best Value Performance Plan for publication.

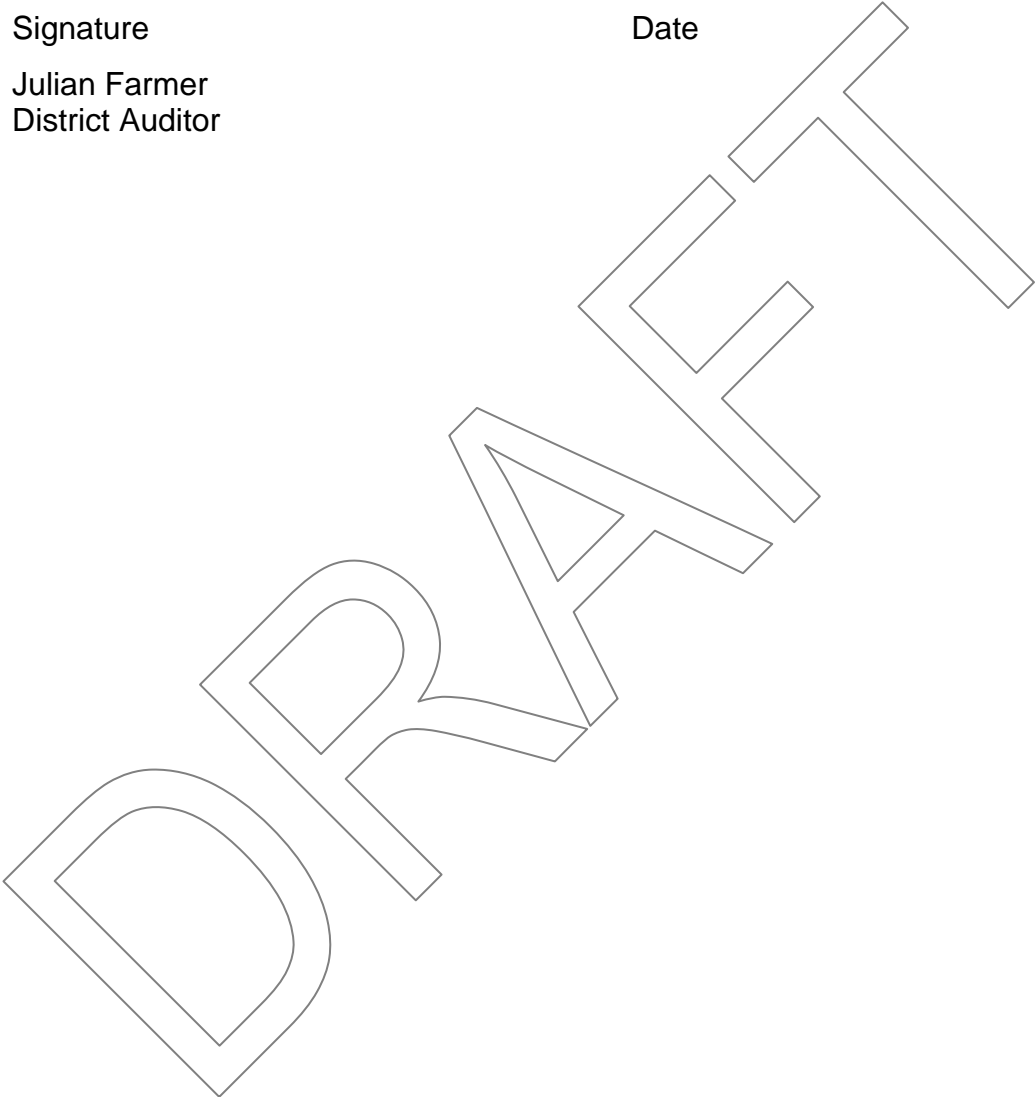
Certificate

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

Signature

Date

Julian Farmer
District Auditor



Appendix 5 – Management representation letter

Draft management representation letter (ISA+580)

To: Mr J Farmer
The Audit Commission
The Heath Business and Technical Park
Runcorn
Cheshire
WA7 4QF

Halton Borough Council- Audit for the year ended 31 March 2007

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other directors and officers of Halton Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2007.

We acknowledge our responsibilities under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

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

Supporting records

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

Related party transactions

We confirm the completeness of the information provided regarding the identification of related parties.

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

Contingent liabilities

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

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

Law, regulations and codes of practice

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

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

Irregularities

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

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

Post balance sheet events

Since the date of approval of the financial statements by The Business Efficiency Board on 28th June 2007, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Halton Borough Council

Signed

Name A. M . McDermott

Position Leader of the Council

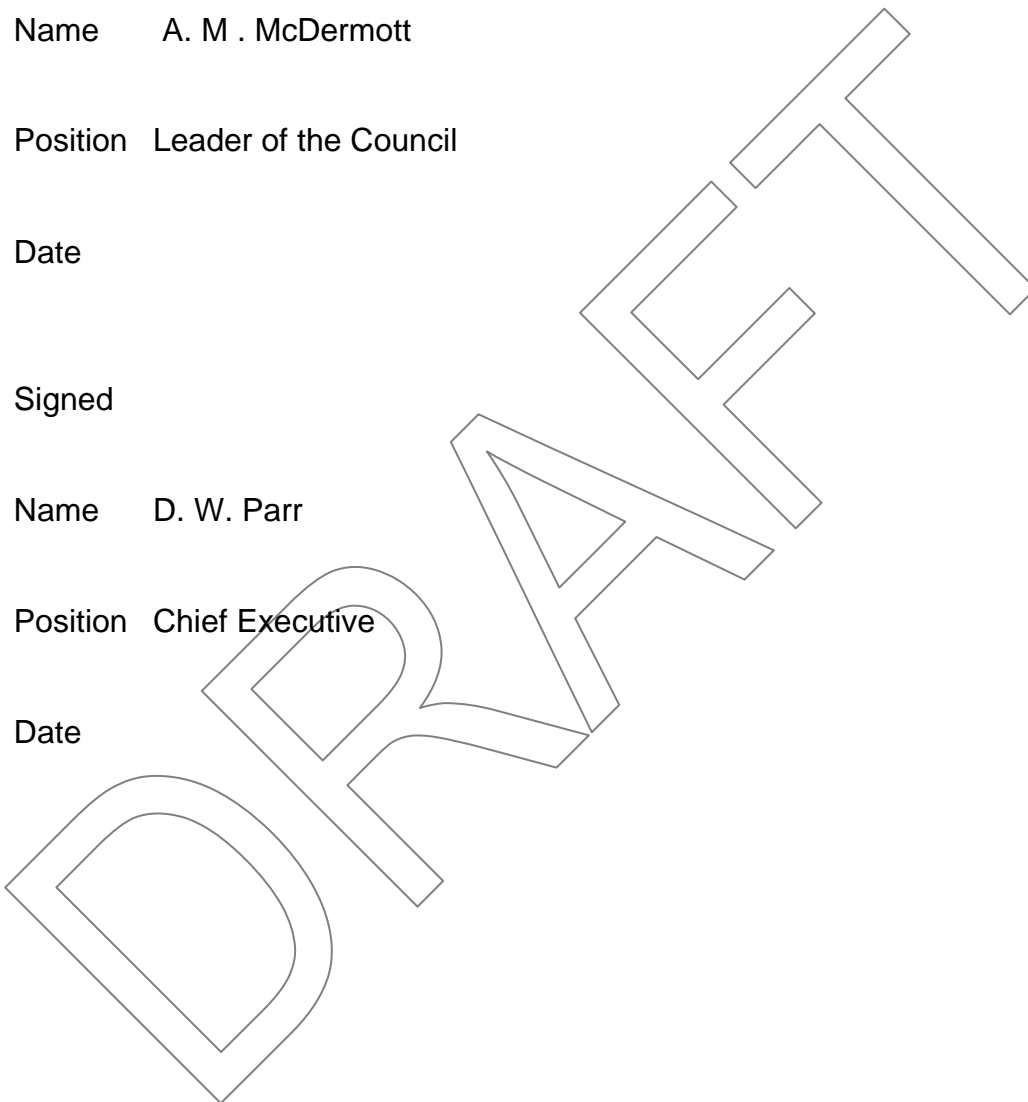
Date

Signed

Name D. W. Parr

Position Chief Executive

Date



Appendix 6 – Summary of adjusted misstatements

The following misstatements were identified during the course of our audit and the financial statements have been adjusted by management. We bring them to your attention to assist you in fulfilling your governance responsibilities.

Description of Misstatement	value £000s	Adjusted
<p>Included revaluation gains in the calculation of gains on disposal of fixed assets. The effect was to overstate gains on disposal in the Income and Expenditure Account and the Statement of Movement on General Fund. Correcting this misstatement had a nil overall effect on balances</p>	1,277	Yes
<p>Incorrect analysis of the movement on general fund which in turn led to:- understatement of expenditure on Social Services overstatement of expenditure on Education Correcting this misstatement had a nil overall effect</p>	-102 169 -67	Yes Yes Yes

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Appendix 7 – Value for money conclusion

The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.

The Code criteria are linked to the use of resources assessment (UoR) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Council has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are show in the table below.

Code Criteria	Description	Criteria met?
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	Yes
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	Yes
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	Yes
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	Yes
5	The body has put in place arrangements to maintain a sound system of internal control.	Yes
6	The body has put in place arrangements to manage its significant business risks.	Yes
7	The body has put in place arrangements to manage and improve value for money.	Yes
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	Yes

9	The body has put in place arrangements to ensure that its spending matches its available resources.	Yes
10	The body has put in place arrangements for managing performance against budgets.	Yes
11	The body has put in place arrangements for the management of its asset base.	Yes
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Yes

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