

# Public Document Pack



## Business Efficiency Board \*\*\*Supplementary Items\*\*\*\*\*

Wednesday, 29 February 2012 at 6.30  
p.m.  
Civic Suite, Town Hall, Runcorn

A handwritten signature in black ink, appearing to read 'David W R', written over a faint rectangular stamp.

**Chief Executive**

### **BOARD MEMBERSHIP**

<b>Councillor Dave Leadbetter (Chairman)</b>	<b>Labour</b>
<b>Councillor Martha Lloyd Jones (Vice-Chairman)</b>	<b>Labour</b>
<b>Councillor Philip Balmer</b>	<b>Independent</b>
<b>Councillor Peter Browne</b>	<b>Conservative</b>
<b>Councillor Harry Howard</b>	<b>Labour</b>
<b>Councillor Alan Lowe</b>	<b>Labour</b>
<b>Councillor Tony McDermott</b>	<b>Labour</b>
<b>Councillor Andrew MacManus</b>	<b>Labour</b>
<b>Councillor Ged Philbin</b>	<b>Labour</b>
<b>Councillor Joe Roberts</b>	<b>Labour</b>
<b>Councillor Christopher Rowe</b>	<b>Liberal Democrat</b>

*Please contact Michelle Simpson on 0151 471 7394 or e-mail [michelle.simpson@halton.gov.uk](mailto:michelle.simpson@halton.gov.uk) for further information.*

*The next meeting of the Board is on Date Not Specified*

**ITEMS TO BE DEALT WITH  
IN THE PRESENCE OF THE PRESS AND PUBLIC**

**Part I**

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***In accordance with the Health and Safety at Work Act the Council is required to notify those attending meetings of the fire evacuation procedures. A copy has previously been circulated to Members and instructions are located in all rooms within the Civic block.***

# Audit plan

Halton Borough Council

Audit 2011/12



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# Introduction

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**This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.**

## **Responsibilities**

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Business Efficiency Board, as those charged with governance, of their responsibilities.

# Accounting statements and Whole of Government Accounts

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I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

## Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

## Identifying audit risks

I need to understand the Council to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council's information systems.

## Identification of risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: **Audit risks**

Risk	Audit response
<p><b>Mersey Gateway Project</b></p> <p>The Council has established a development cost budget of £12.37 million for the Mersey Gateway project covering the period January 2011 to April 2013. It has classified the majority of these costs as capital. The accounting treatment is currently being considered by my audit team. If more of the expected costs are deemed to be revenue rather than capital in nature it will be a further pressure on the Council's 2011/12 and 2012/13 budgets. (Significant risk)</p>	<p>I will review the Council's proposed accounting treatment against the financial reporting standards, including discussion of the principles applied with the Council's external financial advisers.</p> <p>I will test a sample of expenditure incurred in 2011/12 to ensure it is capital in nature.</p>
<p><b>Financial pressures</b></p> <p>The Council continues to face significant financial pressures. In year monitoring reports indicate the Council is in a good position to achieve its approved 2011/12 budget reductions of £13.8 million. However, the pressures continue with a budget gap for 2012/13 of £15 million.</p>	<p>I will monitor the Council's overall arrangements to maintain its financial position.</p> <p>I will review management oversight of material accounting estimates and changes to accounting policies.</p> <p>I will review in-year financial reporting compared with the year-end financial position.</p> <p>I will carry out tests on year-end journals, accruals, provisions and cut-off (the allocation of income and expenditure between financial years.)</p>
<p><b>Heritage Assets</b></p> <p>The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. There is a risk that the Council may be unable to identify, appropriately value and account for all heritage assets.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. For Halton BC this is likely to include your civic regalia, works of art and other cultural assets.</p>	<p>I will evaluate the management controls in place to recognise and value heritage assets.</p> <p>I will also undertake testing to check that the Council has accounted for heritage assets in accordance with FRS 30 and the Code and the financial statements are materially stated.</p>

Risk	Audit response
<p><b>Valuation of Property, Plant and Equipment (PPE)</b></p> <p>The Council is required to value PPE at fair value (with some exceptions). There is a risk that the values reported in the financial statements will be materially misstated due to:</p> <ul style="list-style-type: none"> <li>■ valuation and depreciation values include an element of subjectivity and estimation which, when applied to total PPE balance of £338 million gives rise to an inherent risk;</li> <li>■ the risk that valuations between planned revaluation dates are not updated to reflect material changes since the last revaluation (a fifth of the Council's asset base is revalued each year);</li> <li>■ failure to derecognise the carrying value of assets or components that are replaced or restored; and</li> <li>■ in 2010/11 there was no year end reconciliation between the general ledger and the asset register.</li> </ul>	<p>I will review controls over establishing estimates, including arrangements for instructing your valuer and controls over information provided to the valuer.</p> <p>I will review your procedures for reliance on the work of the valuer.</p> <p>I will carry out tests of detail on valuations and associated depreciation calculations.</p> <p>I will review and test the Council's arrangements for updating valuations, de-recognising relevant components and reconciling the general ledger to the asset register systems.</p>
<p><b>Schools</b></p> <p>In most local authorities schools are managed through a variety of governance arrangements. There are also some schools which continue (because of timing) to be funded through the Building Schools for the Future programme. The differences in these arrangements have implications for the accounting treatment. In 2009/10 I requested your accounts be amended to reflect the correct accounting treatment for several voluntary aided and voluntary controlled schools. Schools are a material part of the Council's overall PPE balance. There may be risk that the Council has misstated its PPE due to the incorrect inclusion or omission of schools in its balance sheet.</p>	<p>I will review the Council's consideration of schools and the IAS 16 recognition criteria and consistency with the accounting policy.</p> <p>I will test the accounting treatment of a sample of schools held on the balance sheet and a sample of schools not recognised on the balance sheet against the IAS 16 recognition criteria.</p>



Risk	Audit response
<p><b>Upgrade to the general ledger system (Agresso)</b></p> <p>The general ledger system is being upgraded in January 2012. This will involve significant changes to both the accounts payable and accounts receivable systems. There is a risk that system controls may not be effective.</p>	<p>I will review management oversight of the upgrade process.</p> <p>I will test detail on the operation of the accounts payable and accounts receivable systems pre and post upgrade.</p> <p>I will test access levels within the upgraded systems.</p>

## Group accounts

The Council is the majority shareholder in Halton Borough Transport (HBT) Ltd and as such consolidates the company accounts into its financial statements. I am responsible for the direction, supervision and performance of the group audit. The bus company is the only component to the group and it is not material to the Council's financial statements. As such I limit my audit work to an assessment of the group boundary controls, analytical review and agreement to HBT's audited accounts.

## Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows, overleaf.

Table 2: Proposed work

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Non-domestic rates Treasury management Council tax Cash and bank	General ledger/journals. Accounts receivable/debtors. Accounts payable/creditors. Housing and council tax benefit. Payroll. Property, plant and equipment (PPE). Supporting people payments.			Investments and other non-current assets. Loans – third party confirmation. Pension contributions.
Final visit	Annual Governance Statement		Pensions assets and liabilities – auditor to Cheshire Pension Fund (Audit Commission).	Pensions liabilities and assets – Hyman’s and our own consulting actuary. Valuation of property, plant and equipment – Halton BC’s in-house valuer. Fair value of loans – portfolio valuation provided by Sector.	All material accounts balances and amounts. Year-end feeder system reconciliations.

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

## Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

# Value for money

## I am required to reach a conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Council's arrangements is based on two criteria, specified by the Commission. These relate to the Council's arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

### Identification of significant risks

I have considered the risks that are relevant to my value for money conclusion. I have identified the following significant risks that I will address through my work.

Table 3: **Significant risks**

Risk	Audit response	Separate audit output?
<b>Financial resilience</b> In addition to delivering its remaining budget reductions for 2011/12, the Council has estimated a funding gap of £39 million for the three-year period 2012/13 to 2014/15. The savings needed for the current financial year total £15 million.	I will consider the robustness of the Council's arrangements for effectively managing its financial risks and ensuring a stable financial position. This will include updating my assessment of the Council's processes in relation to financial governance, strategic financial planning and financial control.	No – key findings will be reported in the Annual Governance Report.

Risk	Audit response	Separate audit output?
	<p>I will review the Council's Medium Term Financial Strategy updates, and consider the reasonableness of assumptions.</p> <p>I will monitor the delivery of agreed savings and efficiency plans in 2011/12 and 2012/13.</p>	
<p><b>Mersey Gateway</b></p> <p>The Mersey Gateway project is a significant project for the Council, and affordability of this project continues to be a risk. The Council received written confirmation of conditional funding approval for the project in October 2011, which triggered the start of the formal procurement process. The annual unitary charge payable to the operator will be partly funded by the Government's availability support grant, with the balance funded by toll revenues. The Council retains the toll revenue risk, which is key element of the affordability of the project.</p>	<p>I will continue to review your arrangements for managing the risks associated with the project, and consider their reasonableness.</p> <p>I will liaise closely with Internal Audit and place reliance upon their work on your procurement arrangements.</p>	<p>No – key findings will be reported in the Annual Governance Report.</p>
<p><b>Capacity</b></p> <p>At the start of the 2011/12 financial year, and as part of its efficiency programme, the Council moved from a four to three directorate structure. At the same time a number of staff left the organisation through redundancy and/or early retirement. This loss of corporate knowledge and a reduced headcount at a time of significant organisational change and external challenge means capacity is stretched. This may impact upon the Council's ability to deliver services and achieve its objectives.</p>	<p>I will consider the effectiveness of your revised arrangements, including how well the Council identifies and mitigates associated risks, through meetings with officers, review of committee minutes and review of internal audit reports.</p>	<p>No – key findings will be reported in the Annual Governance Report.</p>

Risk	Audit response	Separate audit output?
<p><b>Building Schools for the Future (BSF)</b></p> <p>Although the national BSF programme was cancelled during 2010/11, three of the Council's schemes were allowed to continue – Halton High (now an Academy), Wade Deacon High and The Grange. Internal audit reported on the Council's BSF arrangements in May 2011 and gave a 'substantial assurance' rating. The schemes are significant in terms of cost and service delivery and it is important that the Council ensures that value for money continues to be achieved.</p>	<p>Using Internal Audit's work as a basis, I will consider the effectiveness of your arrangements, including how well the Council manages the risks associated with the BSF programme and how it continues to ensure value for money is being achieved.</p>	<p>No – key findings will be reported in the Annual Governance Report.</p>

# Key milestones and deadlines

The Council is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 4: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	3 January to 30 May 2012	n/a
Opinion: receipt of accounts and supporting working papers	1 July 2012	n/a
Opinion: substantive testing	1 July – 30 August 2012	n/a
Present Annual Governance Report at the Audit Committee	By 30 September 2012	Annual Governance Report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	By 30 October 2012	Annual Audit Letter

# The audit team

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The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

Name	Contact details	Responsibilities
Mike Thomas District Auditor	<a href="mailto:m-thomas@audit-commission.gov.uk">m-thomas@audit-commission.gov.uk</a> 0844 798 7043	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Colette Williams Audit Manager	<a href="mailto:c-williams@audit-commission.gov.uk">c-williams@audit-commission.gov.uk</a> 0844 798 3572	Manages and coordinates the different elements of the audit work. Key point of contact for the Operational Director Finance.
Judith Smith Principal Auditor	<a href="mailto:j-smith@audit-commission.gov.uk">j-smith@audit-commission.gov.uk</a> 0844 798 3596	Supports the Audit Manager in coordinating the different elements of the audit work and supervising the on site team.



# Independence and quality

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## Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

## Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

# Fees

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**The fee for the audit is £232,204, as set out in my letter of 12 April 2011.**

## The audit fee

The Audit Commission has set a scale audit fee of £232,204 which represents a 10 per cent reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee. The Mersey Gateway project is a complex scheme unique to Halton BC. I have included a small element of time within the 2011/12 plan to cover our audit work in this area. If our input exceeds this, or if for example we are unable to rely upon Internal Audit's review of your procurement arrangements, we will need to consider an additional audit fee. We will discuss this in the first instance with the Operational Director Finance.

## Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Operational Director Finance and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

## Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. As in previous years, I will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

## Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	232,204	258,005	-25,801
Certification of claims and returns	33,852	29,570	+4,282
Non-audit work	0	0	0
<b>Total</b>	<b>266,056</b>	<b>287,575</b>	<b>-21,519</b>

# Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 7: **Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.</p>	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

*Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards*

# Appendix 2 – Basis for fee

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In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
  - internal controls are operating effectively; and
  - I secure the co-operation of other auditors.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The Council provides:
  - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 1 July 2012;
  - other information requested within agreed timescales;
  - prompt responses to draft reports; and
- there are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

# Appendix 3 – Glossary

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## **Accounting statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

## **Annual Audit Letter**

Report issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

**Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

**Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Group accounts**

Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

**Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.



**Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

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

**Significance**

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

**Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

**Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

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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.



# **Audit** **Committee** **update**

**Halton BC**

**Audit 2011/12**

**6 February 2012**

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

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## Introduction

- 1** The purpose of this paper is to provide the Business Efficiency Board, as the Council's Audit Committee, with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2** This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Business Efficiency Board.
- 3** If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.
- 4** Finally, please also remember to visit our website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Mike Thomas

District Auditor

6 February 2012

## Progress report

### Financial statements

**5** We have completed our initial planning for our 2011/12 audit. Our Audit Plan for 2011/12, to be considered on the same Business Efficiency Board agenda as this update report, sets out our key audit risks and the nature and timing of our proposed work. We will shortly be issuing a detailed working paper requirements document to officers and developing more detailed milestone dates for completion of the accounts and audit of the financial statements.

### VFM conclusion

**6** We have completed our initial planning for our 2011/12 work on the VFM conclusion. Our Audit Plan for 2011/12 discusses the significant risks we have identified relevant to our VFM conclusion and our planned audit response.

### Other areas of work

**7** Our audit of your 2010/11 grant claims is complete. Our report on the outcome of this work is on today's agenda.

## Government response to consultation on the future of local public audit

**8** In August 2010, the government announced its intention to bring forward legislation to abolish the Audit Commission and put in place a new framework for local public audit. In March 2011, the government published a consultation paper and, in January 2012, announced its response to the consultation to which it received 453 responses, the majority from audited bodies.

**9** The Audit Commission is currently in the process of the award of contracts for the work currently undertaken by the Audit Practice for the period 2012/13 to either 2014/15 or 2016/17 (see 'update on the externalisation of the Audit Practice' below). The government envisages the retention of the Audit Commission as a small residuary body until the end of those contracts, to oversee them and to make any necessary changes to individual audit appointments.

**10** Thereafter, the government proposes that a new local public audit regime will apply. The key features of that regime are as follows.

- The National Audit Office will be responsible for developing and maintaining audit codes of practice and providing support to auditors.
- Mirroring the Companies Act provisions, auditors will be subject to the overall regulation of the Financial Reporting Council (the FRC). The FRC will authorise one or more Recognised Supervisory Bodies (in practice, the professional institutes) to register and supervise audit firms and engagement leads.
- Directly-elected local government bodies will appoint their own auditor on the advice of an independent audit appointment panel with a majority of independent members. Such panels may be shared between audited bodies;
- Audited bodies must run a procurement exercise for their external audit appointment at least every five years, although there would be no bar on the reappointment of the incumbent audit firm (for a maximum of one further five-year term);
- Audited bodies will be able to remove their auditor, but only after due process, involving the independent audit appointment panel and culminating in a public statement of the reasons for the decision.
- The audit will continue to cover arrangements for securing economy, efficiency and effectiveness, but without imposing further burdens on audited bodies. There will be further consultation on the approach to value for money.
- The power to issue a public interest report will be retained.



- Audit firms will be able to provide non-audit services to audited bodies, subject to complying with ethical standards and gaining approval from the independent auditor appointment panel.
- The right to object would be retained, but the auditor will be given the power to reject vexatious, repeated or frivolous objections.
- Grant certification will be subject to separate arrangements between grant paying bodies, audited bodies and reporting accountants (who could be the external auditors).
- The National Fraud Initiative will continue. Discussions on how this will be achieved are ongoing.

**11** The government is holding further discussions with audited bodies and audit firms to develop its proposals. The Regional Improvement and Efficiency Partnerships are organising events in January and February 2012 to which audited bodies have been invited. The government intends to publish draft legislation for pre-legislative scrutiny in Spring 2012.

## Update on the externalisation of the Audit Practice

**12** The Audit Commission's Chief Executive, Eugene Sullivan, wrote to clients on 21 September 2011 summarising the Department for Communities and Local Government's plans for externalising the Audit Commission's work that is currently undertaken by the Audit Practice. An update on progress was provided in Eugene's subsequent letter of 10 November 2011.

**13** The key points are as follows.

- Contracts will be let from 2012/13 on a three- or five-year basis. The earliest you will be able to appoint your own auditors is therefore for the 2015/16 audit.
- The work is split into four regions, comprising ten 'lots'. Each lot will be awarded separately, but any individual bidder can only win a maximum of one lot in each region (ie four lots in total).
- The Commission is managing a fair and equitable procurement process to allow suitable private sector providers the opportunity to compete for the contracts.
- Thirteen potential providers were invited to tender following the initial pre-qualification stage. The deadline for return of the tenders was 16 December 2011. Tenders received are currently being evaluated. The Commission plans to announce the successful tenderers in March 2012.
- The Commission is planning to set out, early in 2012, the consultation process to be followed for individual audit appointments. For bodies currently audited by the Audit Practice, there will be an opportunity to attend an introductory event in each contract area with the Commission and the firm awarded the contract. The events will take place in May 2012.
- Appointments will start on 1 September 2012. As such, the Commission is extending the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. The Commission's Director of Audit Policy and Regulation wrote to clients on 19 December 2011 setting out more details on this 'interim' appointment.
- Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

**14** Further details are available on the Commission's website. We will continue to keep you updated on developments.

**15** Against this background, the Audit Practice's focus remains:

- Fulfilling our remaining responsibilities – completing our work for 2010/11 and delivering your 2011/12 audit - to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

## Other matters of interest

### 2010/11 Accounts

**16** The Audit Commission on 15 December 2011 published its national report on Auditing the Accounts 2010/11 covering 457 local government bodies including 356 councils. The report covers the quality and timeliness of financial reporting by councils as well as:

- the results of the first year of International Financial Reporting Standards (IFRS) implementation;
- auditors' work on the Whole of Government Accounts returns;
- auditors' local value for money work;
- public interest reports and statutory recommendations issued by auditors since December 2010; and
- the key challenges facing bodies for 2011/12.

**17** The overall message is that 'bodies generally maintained their standard of performance on financial reporting for 2010/11' and this is also true of Halton Borough Council. The final outcome for Halton's opinion audit compared to other councils can be seen in the context of the national picture as follows:

- we gave an unqualified opinion on the financial statements (1 council's opinion was qualified but there are 9 outstanding opinions still to be given at councils)
- we gave the audit opinion by the deadline of 30 September 2011 (8% of opinions in councils were not given by the deadline)
- the statements were published by the deadline of 30 September 2011 (15% local government bodies did not publish by the deadline)
- the statements were corrected for the material adjustment identified during the audit although this was not IFRS related (63% of councils had to correct material misstatements identified during the audit);
- we gave the assurance report on Halton's Whole of Government Accounts (WGA) return by the deadline of 30 September 2011 (32% of assurance reports in councils were issued after the deadline)
- we issued a 'consistent with' assurance report on Halton's WGA (2% of councils had a qualified 'consistent with, except for' assurance report).

**18** On 18 January 2012, the Audit Commission published 'Let's be clear: Making local authority IFRS accounts more accessible and understandable'.

**19** This briefing supplements the report on the 2010/11 accounts referred to above and focuses on a long-running debate of how to make local government accounts easier to understand.

**20** While the statutory accounts give comprehensive information on each local authority's financial position and performance, reflecting the range of

activities which they cover, they are a poor way of communicating the key information to lay readers.

**21** The briefing notes that:

- elected members and local people would benefit from having access to well-presented extracts from the accounts, which would provide the key information on each authority's financial position and performance;
- the accounting profession and the Audit Commission could do more to encourage auditors and preparers of accounts to reduce clutter in statutory accounts; and
- each authority could do more to ensure their accounts are shorter and more accessible. Those preparing accounts need to look critically at the previous year's accounts. They should identify how these accounts could be sharper and more focused before starting work on the next set.

**22** The briefing concludes by identifying possible steps to make local authority accounts more accessible and easier to understand, and the implications of doing so.

**23** The Audit Commission is seeking views on the issues raised within the briefing and has invited comments by 16 March 2012 - further information on this is available on the Audit Commission's website.

## 2011/12 Final Accounts Workshops

**24** We have invited your staff to a workshop that will help them to prepare your financial statements for 2011/12.

**25** The event is being held at Halton Borough Council on 8 February 2012 and the Council's key finance staff have enrolled on this.

## Managing Workforce Costs

**26** The Audit Commission and Local Government Association have jointly launched 'Work in progress: Meeting local needs with lower workforce costs'.

**27** The joint report - which can be found on the Audit Commission's website - is aimed at councils as employers and shows how local authorities across England are reducing their workforce costs, with some finding creative solutions.

**28** As government funding for councils shrinks by over a quarter between 2011/12 and 2014/15, councils need to reduce their workforce costs substantially while still providing much needed services. Not all councils face the same financial challenges, but the message is that all must reassess what they do, how they do it, and what their priorities are. Those opting for major restructuring will take more time to realise savings.

**29** Councils are finding ways to cut their pay bills without losing jobs, but the report says that redundancies are inevitable. Local government was

already reducing posts before the cuts in government funding. In the past year an estimated 145,000 jobs have gone and this figure will increase in the future. So far many redundancies have been voluntary, but the report warns that compulsory ones are set to rise.

**30** The report is supported by a number of resources including:

- an agency workers expenditure tool which shows councils how much they spend on agency workers, compared with groups of similar councils;
- a workforce expenditure tool which shows councils how much they spend on staff as a proportion of their net current expenditure, and how this has changed over time;
- five case studies which provide examples of the different approaches councils are taking to reduce the costs of employing people while protecting valuable services. The case studies show what the councils did and why - and the benefits achieved; and
- a practical guide on how to undertake effective pay benchmarking, providing a series of steps to follow when starting a pay benchmarking process and highlighting the main issues that should be considered.

**31** The report is supplemented with a briefing for elected members that includes a number of questions designed to help members assess how well their council decides the size, shape and cost of its workforce and how these decisions will affect services and communities.

**32** The questions are in two parts:

- the information that should be available to members about the workforce; and
- the savings strategies councils could follow in the light of that information.

## Joining up health and social care

**33** On 1 December 2011 the Audit Commission published the second in a series of briefings looking at adult social care.

**34** 'Joining Up Health and Social Care - Improving Value for Money Across the Interface' shows significant variations in indicators such as the levels of emergency admissions to hospital. This raises questions about how well services are being integrated to meet the preferences of older people. Despite the focus for many years on improving joint working across the NHS and social care, progress remains patchy.

**35** At a time when the whole of the public sector must find significant savings, the report says that integrated working offers opportunities for efficiencies and improvements to services. Without it, there is a risk of duplication and 'cost-shunting' - where savings made by one organisation or sector simply create costs for others.

**36** The briefing offers guidance to local partnerships, setting out a list of questions to consider and suggestions for interventions that might help. The briefing also includes a number of case studies which show how some

areas have embraced partnership working and used local data and benchmarking to establish how and where to make improvements.

**37** The Audit Commission has developed a tool to accompany the briefing that allows NHS and social care partnerships to benchmark their performance against others.

## **CIPFA's Prudential Code for Capital Finance**

**38** CIPFA has recently updated its Prudential Code for Capital Finance in Local Authorities. This new version reflects the introduction of IFRS which required:

- PFI schemes to be included on organisations' balance sheets; and
- The accounting treatment of leases to be reviewed – with many more likely to be considered as finance leases and thus also included on the relevant balance sheets.

**39** Although local authorities determine their own capital programmes, they are required to have regard to CIPFA's Prudential Code (the Code) in order to ensure that these capital investment plans are affordable, prudent and sustainable.

**40** To demonstrate that these objectives have been met, the Code sets out the indicators that must be used and the factors that must be taken into account.

**41** The Code does not include suggested indicative limits or ratios and these are for the local authority to set itself, subject to some overriding controls.

**42** The prudential indicators required by the Code should be considered alongside its Treasury Management performance indicators. These indicators are designed to support and record local decision making and are not designed to be comparative performance indicators.

## **2011/12 Accounts: CIPFA Guidance Notes for Practitioners**

**43** CIPFA has recently published a set of guidance notes to provide support in preparing the 2011/12 year-end accounts. These offer constructive advice on all aspects of the requirements for 2011/12 and provide detailed guidance on the key changes, including accounting for:

- heritage assets;
- business rate supplements;
- community infrastructure levies;
- related party disclosures;
- exit packages;
- trust funds;
- financial instruments; and
- interests in joint ventures.

44 The key changes to your financial statements in 2011/12 will also be covered by our final accounts workshop in February.

## For information: Board Governance Essentials

45 The Public Chairs' Forum and CIPFA have recently published a joint 'how to' guide for Chairs and Boards of public bodies.

46 'Board Governance Essentials: A Guide for Chairs and Boards of Public Bodies' offers advice across four key areas.

- Good corporate governance.
- Roles, responsibilities and relationships.
- Standards of behaviour in public life.
- Effective financial management and transparency.

47 This guide may provide interesting reading for all members.

## Fire and Rescue National Framework

48 In December 2011 the government launched a consultation exercise seeking views on freeing fire and rescue authorities to tailor their services to meet local needs whilst meeting the wider needs of national resilience.

49 The priorities in the draft National Framework are for fire and rescue authorities to:

- identify and assess the full range of fire and rescue related risks their area faces, make provision for prevention and protection activities and to respond to incidents appropriately;
- work in partnership with their communities and a wide range of partners locally and nationally to deliver their service; and
- be accountable to communities for the service they provide.

50 The consultation exercise ends on 19 March 2012 and further information can be found on the DCLG website.

## Local Government Finance Bill

51 In December 2011 the government introduced proposals to devolve greater financial powers and freedoms to councils. The Local Government Finance Bill sets out the legislative foundations to implement the changes from April 2013. The most significant proposals relate to non-domestic rates, which are currently pooled and redistributed nationally.

52 The Bill provides for councils to:

- retain a portion of their business rate growth;
- borrow against future income from business rates to pay for roads and transport projects alongside other local priorities;
- ensure a stable starting point for all authorities. No authority will be worse off as a result of their business rates base at the start of the scheme;



- establish a national baseline alongside a system of top ups and tariffs. Councils with business rates in excess of a set baseline would pay a tariff to government whilst those below would get an individually assessed top up from government; and
- create a levy to take back a share of growth from those councils that gain disproportionately from the changes. This money would be used to fund a safety net providing financial help to those authorities which experience significant drops in business rates, for example caused by the closure or relocation of a major business.

**53** The Bill provides for much of the detail of the arrangements, including the sharing of business rate growth between billing and precepting authorities, to be left to secondary legislation.

## Contact details

**54** If you would like further information on any items in this briefing, please feel free to contact either your District Auditor / Engagement Lead or Audit Manager.

**55** Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

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