

Annual Audit Letter

Halton Borough Council

Audit 2010/11



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Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

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

Audit opinion and financial statements

I issued an unqualified audit opinion on the 2010/11 statements on 29 September 2011. On the same day I also issued an unqualified assurance statement on the Council's Whole of Government Accounts submission.

This year, for the first time, the Council had to produce its financial statements on a new accounting basis, the International Financial Reporting Standards (IFRS). The introduction of IFRS was a complex and demanding exercise for officers. It required officers to restate balances from 1 April 2009 as well as to collect and analyse information not recorded or disclosed under the previous accounting regime. This resulted in much longer and more detailed published statements. I identified several areas where the statements were not fully IFRS compliant, and officers actioned my requested amendments.

Working papers to support the accounts were good. My team received excellent cooperation from officers during the audit with full and prompt responses to all audit queries.

Value for money

The Council has adequate arrangements for ensuring economy, efficiency and effectiveness in its use of resources. I issued an unqualified value for money conclusion on 29 September 2011.

Like most other public sector organisations the Council faces significant financial challenges in 2011/12 and 2012/13. The Council has a proven track record of keeping expenditure within budget and securing financial resilience. This will continue to be a major challenge during the remainder of 2011/12 and beyond.

The process of identifying saving opportunities to meet the £15 million funding gap for 2012/13 is underway but further work is needed to ensure a fully identified savings plan is in place for the 2012/13 budget.

During 2011 the Council and its officers have been proactive in engaging with Government to maintain the profile of the Mersey Gateway project and to identify and tackle outstanding issues.

In October 2011, the Council received confirmation of conditional funding approval from Government. The annual unitary charge payable to the eventual operator of the second Mersey crossing will be partly funded by the Government's availability support grant. The balance will be funded by toll revenues. The Council retains the toll revenue risk, a key issue for the medium and longer term financial planning of the Council.

Given the scale of this project, and the key risks retained by the Council, it is essential that the Council continues to monitor, manage and mitigate these risks and considers the impact on its financial and operational plans.

My work on the accounting treatment of development costs related to the project is ongoing.

Financial statements and annual governance statement

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

Overall conclusion from the audit

The Business Efficiency Board approved the Council's 2010/11 financial statements on 28 September 2011. I gave an unqualified audit opinion on those statements on 29 September 2011.

The statements were prepared using the International Financial Reporting Standards (IFRS) for the first time this year. The introduction of IFRS required officers to restate balances from 1 April 2009 as well as to collect and analyse information not recorded or disclosed under the previous accounting regime. This placed considerable additional demands on officers' time. As a result officers took advantage of the additional time provided by the changes in the accounts approval process for 2010/11 to prepare the Council's financial statements. The first version of the statements was approved by the Operational Director – Finance on the 30 June deadline and was submitted for audit on 1 July.

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

A number of amendments were made to the statements following my audit including two material disclosure errors, neither of which impacted upon the Council's reported year financial position. My annual governance report presented to the Business Efficiency Board in September details all amendments made during the audit. I identified two misstatements which the Council decided not to amend in its accounts. One was an overstatement of £1.5m on short term debtors and the other related to an understatement of £1.9m on the value of land and buildings on the balance sheet. The letter of representation set out the reasons for not amending the accounts and I was satisfied with the explanations given.

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

I identified four areas of accounting practice which require strengthening: property, plant and equipment reconciliations; the allocation of expenditure between years; estimate methodologies and the detail supporting related party declarations. Officers have agreed my recommendations for improvement.

I completed my audit of the Council's 2010/11 Whole of Government Accounts (WGA) consolidation pack and issued my assurance statement on 29 September 2011. As with the Council's main statements, officers provided a clear audit trail and good working papers to support the WGA pack.

Annual governance statement

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

Mersey Gateway Project

Mersey Gateway is a unique project with high value transactions. It is also a complex accounting area where I have required material changes to accounting treatment in previous years. During the year I have had regular discussions with officers about progress and issues relating to Mersey Gateway. These discussions are ongoing and are currently focussing on the accounting treatment of development costs and affordability.

The Council included £821,000 of development costs relating to Mersey Gateway within its 2010/11 accounts. These costs have been accounted for as capital expenditure. The costs included in 2010/11 are not material and did not therefore prevent me from giving my audit opinion. But it is likely that the costs will be material in 2011/12. The Council has established a development cost budget of £12.37 million to cover the period January 2011 to April 2013. It has classified the majority of these costs as capital. The accounting treatment is still under consideration and my audit team are awaiting further information on development costs from officers. 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.

The Government confirmed funding support for the Mersey Gateway project in October 2010, and planning approval followed in December 2010. Despite this, 2011 has been a challenging year for the Council and the project team. It has involved extensive discussions with the Department for Transport (DfT) and a considerable amount of work in finalising the Outline Business Case. The Council and its officers have been proactive in engaging with DfT to maintain the profile of the project and to identify and tackle outstanding issues.

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. It is therefore important for the Council to monitor and mitigate this risk during the procurement phase, and ultimately to decide whether the residual risk to the Council is acceptable. The Council has already identified the need to develop a post contract close structure to manage its ongoing risks and responsibilities, and it will need to continue to develop these arrangements during the procurement phase.

I will continue to monitor progress on the project and review project arrangements in 2011/12. I will liaise with Internal Audit and place reliance on their work where possible to avoid duplication of effort.

National fraud initiative (NFI)

The Council is a proactive participant in the national fraud initiative (NFI). The NFI is a data matching exercise run by the Audit Commission. It compares information held by different organisations and within organisations to identify potentially fraudulent claims and overpayments. The Council received 27,859 National Fraud Initiative (NFI) 2010/11 matches in January 2011, the majority of which were marked as high priority. The Council has identified £8,126 of fraud and error so far and is recovering £7,109. The Council is continuing to review and investigate its remaining NFI matches.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>General fund expenditure is managed well across the Council, with recognition that managing spending and securing a stable financial position is not simply a finance function but is an integral part of effective performance management. Systems and processes are well established but also continue to change and develop to suit changing circumstances.</p> <p>The Council once again managed its spending within its revenue budget in 2010/11. General fund balances at 31 March 2011 totalled £7.367 million, just over 6.5 per cent of net expenditure. There is scope for officers to revisit the Council's reserves and balances strategy to more explicitly link the planned level of balances to an assessment of the potential risks that could result in a call on those balances.</p> <p>In common with other local authorities, the Council is facing significant financial pressures. The Council sets its annual budget in the context of a medium term financial strategy (MTFS) which covers a three year period. The MTFS 2011/12 to 2013/14 was produced in November 2010.</p>

Criterion

Key messages

This identified a potential funding gap of £48 million over the three year period. For 2011/12, the first year covered by the MTFS, the Council has set a balanced budget which includes savings of £13.853 million. Second quarter monitoring reports indicate the Council is largely on track to achieve its budget but in year pressures may still present challenges along the way. Close control and monitoring of spend is required through the remainder of the year to minimise the risk of a budget overspend at the end of March 2012.

The funding gaps for 2012/13 and 2013/14 are even more challenging. In 2012/13 the Council has set a savings target of £15 million to bridge the gap and enable it to continue to set a balanced budget. The Budget Working Group (BWG) for 2012/13 held its first meeting on 24 March 2011, several months earlier than in previous years and an acknowledgement of the work needed to secure continued financial balance. To date savings of just under £10 million have been identified with work ongoing to ensure a full and detailed savings plan is in place to support the 2012/13 budget.

One very significant issue for the Council in terms of ongoing financial resilience is Mersey Gateway project. As reported earlier in this letter, it is a hugely complex and costly project which will have long term financial implications for the Council. The Council will need to continue to review and manage the risks and costs of the project to ensure its affordability. I am currently awaiting further information from Council officers before concluding on the proposed accounting treatment of the development costs associated with Mersey Gateway. The outcome of this may impact upon the Council's financial position in 2011/12 and 2012/13.

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Council challenges itself to secure economy, efficiency and effectiveness. A strategic approach to reducing costs and improving value for money is evident through the Council's efficiency programme and budget setting process. Members continue to offer supportive challenge through the Budget Working Group to identify and review proposals to achieve savings and efficiencies.

Criterion**Key messages**

The revised structures for transactional support services such as finance, HR, administration and procurement are in place and have resulted in cost savings and some improved process arrangements. The revised management structure, moving from four to three directorates, came into operation with effect from 1 April 2011. The Council is addressing areas of high spend through the efficiency review programme. A new corporate charging framework is now in place and an efficiency review of income and charging is also underway.

Much strengthened and improved procurement arrangements have been established via a centre of excellence. Procurement is now considered a key mechanism for delivering the efficiency programme and efficiencies in general across the Council.

Like much of the public sector, Halton has considerable financial challenges ahead. The Council's structured approach to planning, the budget processes in place and the track record of savings achieved to date all place the Council in a good position to respond to these challenges.

Current and future challenges

Economic downturn and pressure on the public sector

The current economic climate continues to place significant pressure on public sector bodies to generate efficiencies and work within reduced resources. The Council managed these pressures in 2010/11 but faces even more significant challenges over the next few years.

As part of its 2011/12 budget the Council approved a savings plan of £13.853 million. The most recent iteration of the MTFS covering the three year period 2012/13 to 2014/15 indicates the need for the Council to make further significant savings over the period. Revenue savings of up to £15 million, £13 million and £11 million are required over the next three years. The Council has a structured approach and framework in place to identify and manage budget pressures but these will be tested as the Council seeks to meet its financial and service objectives.

Mersey Gateway

My letter has already commented on the Mersey Gateway project. However a review of current and future challenges for the Council would not be complete without mentioning it again. As members and officers have acknowledged, it is a huge project for an organisation of Halton's size and the risks associated with it will continue for the foreseeable future.

Capacity

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. The Council is aware of this and is committed to ensuring any associated risks are mitigated wherever possible.

Joint arrangements and Health Partnerships

The Council has engaged in a number of successful joint arrangements with local Health Bodies. The National Health Service is about to undergo one of the most significant changes in its history. This will present many challenges to the Council as it aligns Council objectives and ways of working with those of the new Health Bodies. The changes will also present opportunities for the Council as it takes on new responsibilities and as Commissioning Groups are given more opportunity to shape local services.

Income streams

The Government is consulting on a change to the National Business Rates scheme. It is proposing to end the current pooling and redistribution of Business Rate income from April 2013 thereafter councils will retain the Business Rate income collected locally. This will be supplemented by a system of fixed top-ups and tariffs. In addition the Government is looking at ways to enable councils to borrow against future Business Rate income. This will be a significant change for Halton Council and many authorities in the North-West.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Operational Director Finance. I will present this letter at the Executive Board on 1 December 2011 and will provide copies to all Council members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit fee letter	19 April 2010
Opinion audit plan	19 January 2011
Annual governance report	28 September 2011
Audit opinion on the 2010/11 financial statements, value for money conclusion and audit certificate	29 September 2011
Assurance statement on the Whole of Government Accounts (WGA) consolidation pack	29 September 2011
Annual audit letter	14 November 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their continued support and co-operation during the audit.

Mike Thomas

District Auditor

November 2011

Appendix 1 – 2010/11 Audit Fee

	Actual	Proposed	Variance
Financial statements, including WGA	£197,749	£197,749	£0
VFM conclusion	£60,256	£60,256	£0
Total audit fee	£258,005	£258,005	£0
Audit Commission rebates*			
■ IFRS implementation	£(16,116)		£(16,116)
■ VFM	£(9,463)		£(9,463)
Net audit fee	£232,426	£258,005	£ (25,579) – total rebate from the Audit Commission
Certification of grant claims	Audit not yet complete	£67,746	Audit not yet complete

* The Audit Commission rebated £16,116 in April 2010 to subsidise the 'one-off' element of the cost of the transition to IFRS for local authorities. It also issued a further rebate of £9,463 in 2011 for the change in approach to vfm work from 2010/11.

Appendix 2 – Glossary

Annual governance statement

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

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

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

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

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

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

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

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

Whole of government accounts

The Whole of Government Accounts (WGA) is a consolidated set of financial statements for the UK public sector. It consolidates around 1,500 bodies, including central government departments, local authorities, devolved administrations, the health service, and public corporations. It is similar in presentation to private sector accounts.

The aim of WGA is to enable Parliament and the public better to understand and scrutinise how taxpayers' money is spent. By presenting the public finances in a framework familiar to the commercial and accountancy professions, WGA increases transparency and accessibility of information about public finances.

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