

# **Annual**

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# **governance**

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# **report**

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**Warrington Borough Council**

**Audit 2011/12**

**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), local police bodies and other local public services in England, and oversees their work. The auditors we currently appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms.**

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

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# Key messages

**This report summarises the findings from the 2011/12 audit which is now complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

## Financial statements

I have now almost completed my audit and expect to issue an unqualified opinion on the Council's financial statements on 27 September 2012.

The Council has improved its closure of accounts process this year. The statements; received before 30 June 2012 deadline, were supported by much better audit trails and working papers.

The accounts presented for audit contained fewer material errors than in previous years but still include a high number of non-trivial errors. A list of the material changes to the accounts is included at appendix 3.

A significant number of the reported errors relate to capital accounting and financing. The Council lacks appropriate expertise to accurately account for its capital transactions. In addition, the Council's capital accounting IT systems and processes are not yet fit for purpose. This is a technical area that the Council will need to address if it is to improve the overall quality of its accounts.

The majority of reported errors relate to incorrect classification or disclosure and have no impact on the bottom line. However, the Council accounted for the £3.8 million balance on the housing revenue account as income. This is incorrect. As a result the level of reserves reported in June has fallen by £3.8 million.

The Chief Finance Officer has agreed to adjust almost all of the identified errors. The detailed changes are set out in his report accompanying the financial statements. The six remaining uncorrected errors and uncertainties are listed at appendix 2. I ask that you review this list and are satisfied with the suggested approach before you approve the accounts.

## Value for money (VFM)

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

The Council remains financially resilient despite the ongoing reduction in government funding and increased pressure on services. In this difficult financial context the Council met its planned savings target of £22.8 million through a combination of original and revised means. The Council also managed to increase its usable reserves by almost £800,000.

It appropriately re-profiled its capital budget from £87.1m to £60.8 m in December 2011. This reflected the external funding of the Warrington Regeneration strategy (£8m) and the re phasing of its office accommodation review (£9m).

Further slippage occurred taking the reported spend down to £42.7m. taking out the large solar farm project and recognising the slower take up of mortgages. Going forward, the Council faces further challenges in an ongoing uncertain economic climate. Like all councils, it faces continued pressure to deliver high quality services with limited resources.

The Council continue to look for new and innovative ways of working in order to continue to provide value for money. For example:

- the outsourcing of its leisure, libraries and wellbeing services into a community interest company (Livewire) and its cultural services into a charitable Trust (Culture Warrington) 18 May 2012;
- the partnership with golden gates housing to install solar panels is intended to help tenants save money and to take some of them out of fuel poverty. The scheme focuses on tenants living in the Council's 'closing the gap' target areas; and
- the 'lend a hand' mortgage scheme - this is an innovative new scheme aimed at helping local first time buyers onto the property ladder. It is particularly aimed at those who struggle to raise the deposit needed to get an affordable mortgage.

It remains important that the Council's project management, accounting and governance arrangements keep pace with these changes ahead.

## Before I give my opinion and conclusion

**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

### Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I 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.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2010/12.

### Next steps

I ask the Audit Committee to:

- consider the matters in this report and review the uncorrected errors at appendix 2;
- take note of the adjustments to the financial statements included in this report (appendices 3);
- approve the letter of representation (appendix 1), on behalf of the Authority before I issue my opinion and VFM conclusion.

# Financial statements

**The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

## Opinion on the financial statements

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

I have yet to complete my work in the following areas at 17 September:

- receive sufficient information to complete my work on capital grants;
- final review procedures; and
- agree the final changes to the financial statements with officers.

In addition, I have not completed my work on the Council's whole of government accounts return.

I will update the Audit and Governance Committee at the Chair's briefing on 25 September and also at the meeting on 27 September 2012. At this stage I do not expect to need to issue an updated report in advance of these meetings.

The Council has improved its closure of accounts process this year. The statements, received before 30 June 2012 deadline, were supported by much better audit trails and working papers. The accounts presented for audit also contained fewer material errors (5) last year (12). A full listing of all the material changes to the accounts is included at appendix 2.

A significant number of the reported errors relate to capital accounting and financing. The Council lacks appropriate expertise to accurately account for its capital transactions. In addition, the Council's capital accounting IT systems and processes are not yet fit for purpose.

The audit trails and working papers supporting the statements are better and easier to follow and there is a marked improvement in the ownership of the accounts by the finance team. However, the Council still needs to

address the level of errors relating to capital accounting and other technical areas including period adjustments if it is to improve the overall quality of its accounts.

## Uncorrected errors and uncertainties for attention

All but six errors have been adjusted by officers; a full list of uncorrected errors and uncertainties is included at appendix 2. I ask that you review this list before you approve the accounts. The most significant items are brought to your attention below.

The Council used its prudential borrowing to support a cash backed mortgage lending scheme. This involved the Council making the maximum investment of £2 million with Lloyds Bank for five years. The Council has accounted for this investment as a long term debtor and reported this as capital expenditure within the capital programme. However, I do not agree with this accounting treatment because:

- payments of this nature do not constitute 'expenditure for capital purposes' (as defined in Local Authorities (Capital Finance and Accounting) Regulations 2003; and
- these deposits are, in substance, no different from any other long-term investment in that they earn income in the form of interest over a period greater than one year. The deposit does not create any tangible asset.

Given the amounts involved, I have not asked the Chief Financial Officer to consider correcting this in 2011/12. However, the Council plans to extend the scheme and the amounts involved may become material in future years.

As part of my year end cut-off testing I found a number of year end creditor accruals (worth £3.9 million in total) that had not been accounted for in 2011/12. I extended my work to ensure that the indebtedness of the Council was not materially understated. I am pleased to report I found no further errors as part of this additional work. It remains important that the Council improves its year end accruals process.

Other uncorrected errors include matters that are better addressed through improved accounting procedures going forward. For example, the balancing figure within the cash flow statement and the underestimate of holiday pay accrual

## Corrected errors

I have identified five material misstatements in the accounts presented for audit. They all relate to either disclosure or classification issues. There are no significant matters that I would like draw to your attention other than noting that four of the material errors relate to capital accounting. Any improvement the Council makes in this area will have a direct impact upon the overall quality and accuracy of its accounts.

I identified 31 non trivial numerical errors in the draft accounts presented for the audit, again, the majority of which relate to disclosure and classification issues. A further 56 text or disclosure errors were identified and have been

corrected. I am not required to report to you corrected non material errors. However, given the volume of changes, the more significant issues are summarised below.

Table 1: **Significant corrections to the accounts 2011/12**

Ref	Errors	Implications
CIES and debtors	Includes £3.8m of income in respect of HRA reserves to be received following closure of the HRA. This transaction is accounted for as a transfer between existing reserves.	The debtor is offset by the transfer of the HRA reserves. As a result the level of reserves reported in June has fallen by £3.8m.
PPE Balance Sheet and Note 12	I found a significant number of errors relating to the proper accounting for property, plant and equipment. I have found and reported to officers inaccuracies in the way the Council had recognised, depreciated, revalued, impaired, componentised and classified some of its assets.	There is no impact on the bottom line. The aggregate change to the figures throughout the accounts is £11.8m. There are also a considerable number of changes to note 12. I have commented on the PPE element of the accounts in previous years. This remains a weak technical area.
PPA Note 57	This Council made 32 changes to the previous years audited accounts. The majority of the changes did not meet the requirements of IAS 8 as they were not because of a change in accounting policy or material in nature. The changes were made by officers to improve the comparisons information with 2011/12 accounts. These have now been dealt with, where appropriate, under IAS1.	Brought forward figures should, in most cases, match the audited closing figures in the accounts. Where there are material errors or a change in accounting policy the accounts should be amended under IAS 8 and supported by clear audit trails. My team had to undertake additional audit work to ensure the changes made to prior year figures were appropriate. I identified a small number of errors in the changes made to the previous years figures.
Closure of the Housing revenue account. (HRA)	The Council had not closed its HRA during the year following approval from DCLG on 26 July 2011.	The Council has now closed its HRA and transferred the balance of £3.9m to earmarked reserves. This was used to meet the in year overspend. The Council has included a discontinued operations note (29) and updated its explanatory foreword to reflect the transfer of HRA assets, liabilities and equity to the general fund.
Cash and cash equivalents	The incorrect treatment of ledger codes for bank accounts changes the balance sheet assets from £22.5m to £17.2m and the liabilities from (£9.4m) to (£4.08m).	I found a number of issues relating to accounting for cash. As a key and sensitive item this is an area for further development.

## Significant risks and my findings

I reported to you in my Audit Plan 2011/12 the significant risks that I identified relevant to my audit of your financial statements. Officers accepted these areas as risks and have actively tried to manage them as part of the closedown process. This has resulted in some improvements in key areas. In table 2 I report to you my findings against each of these risks.

Table 2: Risks and findings

Risk	Finding
Closedown of Accounts	<p>The Council has improved its closure of accounts This meant that the accounts were presented in a timely fashion, contained fewer material errors and were supported by improved working papers and audit trails.</p> <p>Unfortunately the accounts continue to contain a significant number of non trivial errors and the Council needs to further improve its processes in support of the audit of its statements.</p>
Heritage Assets	<p>I evaluated the design and implementation of controls and procedures in place for recognising, valuing and disclosing material heritage assets in your financial statements. My testing has identified that the Council has put in place proper arrangements for reporting heritage assets. I have no issues to bring to your attention.</p>
Access to the general ledger and subsidiary systems	<p>I evaluated the design and implementation of controls in place to restrict and monitor the accessibility of the general ledger and subsidiary systems. I performed substantive procedures to satisfy myself that the systems would not allow any unauthorised amendments to standing data. My testing identified that changes to payroll data would not be prevented but would be detected and reported. Since the conclusion of my testing the controls have further improved to prevent unauthorised changes. Overall, IT access controls have improved.</p>
SAP Capital asset module	<p>The Council continues to struggle with the SAP capital asset module. It is not fit for purpose and does not fully support the closedown process. The finance team prepare many of the key figures manually. This is both time consuming for the officers and exposes the Council to a greater degree of risk and error. This issue is also the same for cash and bank figures as there is no SAP cash module.</p> <p>More investment is required in these area improving the functionality of the software and developing the skills and expertise within the finance team.</p>
Pensions Liability	<p>I reviewed the controls in place for ensuring that the actuary has sufficient and accurate information on which to make his estimate. Although there were no significant differences in the reported figures, the process for effectively managing and communicating with the pension fund could be improved.</p>

Risk	Finding
Accounting for government grants	<p>The Council made a number of improvements to its arrangements for accounting for government grants during the year. However, this area continues to present problems particularly with regard to receipts in advance.</p> <p>The Council made prior period adjustments to the accounts to correct previous years errors (£13.3m in relation to capital grants receipts in advance and £6.3m for revenue grants). My audit work has identified a further error of £1.7m in the current year figures.</p>
Whole of government accounts (WGA)	<p>Previously I have raised extra fee for the numerous corrections and additional audit work required to sign off the (WGA) return. This year the draft WGA received 1 August 2012 was replaced on the 18 September 2012 by a much improved version. This should pave the way for further improvements in the quality of initial WGA submissions.</p>

## Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

The following weaknesses in internal control are only those I have identified during the audit that are relevant to preparing the financial statements.

Table 3: **Internal control issues and my findings**

Area	Issue and Potential impact	Management action
Closedown	Although the closedown process has improved the high number of corrected errors challenges the robustness of the quality assurance arrangements.	Review and improve the quality assurance arrangements in place.
Arrangements for leases	A significant number of leases (both where the Council is the lessor and or the lessee) are simply rolled over. Renegotiating contracts in a timely manner protects the Council from financial and potential governance issues.	Review and re negotiate any rolled over leases.
Control Accounts	The design and use of debtor control accounts does not provide an effective management control and weakens the audit trail.	Review the use of control and suspense accounts. Ensure that they are operating effectively as a management control.
Expenditure	My sample testing of 2011/12 expenditure included a payment for adoption support. This fortnightly payment should have ceased in 2001.	Review processes in place to ensure any entitlements to receive supportive payments remain valid.
Accruals accounting	As part of my year end cut off testing I found a number of creditor payments that had been expensed in the following financial year rather than in 2011/12. This underestimates the Council's indebtedness at the year end.	Improve the procedures in place for year end accruals accounting.
Cash and Bank	During the year I found that the cash and bank reconciliations were not up to date. I also found historical balancing figures in the manual cash and bank reconciliation and poor use of the ledger codes supporting this account.	The Council should review its approach for cash and bank reconciliations. Historical balancing figures should be written out of the process.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

Table 4: **Other matters**

Issue	Finding
Accounting policy Depreciation	I reviewed the Council's accounting policy for depreciation of property, plant and equipment (PPE) and checked the application of the policy on a sample of PPE. The policy is inconsistent with actual charges made for depreciation. The Council has amended the policy disclosed in the revised financial statements.
Accounting Policy Leases	I reviewed the Council's accounting policy for classification of leases. It does not meet IAS17. The Council's policy states that any lease less than 15 years is automatically an operating lease. However, under IAS17, a lease is classified as a finance lease unless proven otherwise. Officers have agreed to revise this policy.
Audit Fee	The audit fee reported in the draft accounts was overstated by £54,000. The figure was based on actual payments made during the year as opposed to the charge for 2011/12 audit. This has been corrected in Note 36.

## Internal Audit

We continued to rely on the work of internal audit as set out in our Audit Plan. In addition Internal Audit undertook some of the additional detailed testing needed on journals and payroll. This helped to reduce the impact of this work on the audit fee.

## Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. As at 20 September 2012 I have not completed the procedures specified by the National Audit Office. I expect to complete my report by 27 September 2012 and will update the audit and governance committee at our meeting.

# Value for money

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

I assess your arrangements against the two criteria specified by the Commission. In my 2011/12 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

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

Table 5: **Value for money conclusion criteria and my findings**

Criteria	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience.	<p>The Council remains financially resilient despite the continuing decline in government funding (-13.3% for 11/12) and increased pressure on services. In this difficult financial context the Council met its planned savings target of £22.8m through a combination of original and revised means. The Council also managed to increase its usable reserves by £0.798m.</p> <p>The Council appropriately re-profiled its capital budget downwards in December 2011 from £87.1m to £60.8m. This reflected the external funding of the Warrington Regeneration strategy (£8m) and the re phasing of its office accommodation review (£9m).</p> <p>Further slippage occurred taking the reported spend down to £42.7m. The non-achievement of 2011-12 savings includes a number of projects that due to the phasing of implementation or necessary consultation processes have not achieved their targets. These include the following items.</p> <ul style="list-style-type: none"><li>■ A delay in some service redesigns, specifically in Environment &amp; Regeneration Directorate as a result of extended staff consultation timeframes due to the size of restructuring process.</li><li>■ The comprehensive consultation processes required within the Neighbourhood &amp; Community Directorate to implement relevant proposals.</li></ul>

Criteria	Findings
	<ul style="list-style-type: none"> <li>■ The ongoing consultation on changes to employees' terms and conditions with trade unions that are still continuing.</li> </ul> <p>Going forward, there are further challenges to be faced in an uncertain economic climate. There are substantial changes being made to the housing benefit and council tax benefit scheme, proposed changes to the collection and retention of business rates, further cuts from central government whilst the pressure to deliver high quality services remains.</p> <p>The Council are looking for new and innovative ways of working in order to continue to provide value for money for example, the outsourcing of its leisure, libraries and wellbeing services into a community interest company, the partnership with golden gates housing to install solar panels and the 'lend a hand' scheme. It is important that the Council's project management, full life cycle costing, accounting and governance arrangements keep pace with the changes ahead.</p>
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p>	<p>I have reviewed the budget and MTFP and conclude that the Council recognises the financial challenges that lie ahead.</p> <p>The Council has relatively lower level of reserves than some of its nearest neighbours. It is planning to increase levels of reserves going forward which is dependent on making in year savings at this difficult time.</p> <p>The Council does not plan to use reserves to balance its budget. This year its target was met through making one off rather than the originally planned recurrent savings.</p>

In my 2011/12 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below the findings of my work addressing each of the risks I identified.

Table 6: **Value for money conclusion criteria and my findings**

Risk	Finding	Impact on VFM conclusion
Funding and finance.	I found that the Council is has a good understanding of its overall financial position. This is communicated and shared with both officers and members.	None
Minimum Revenue Position (MRP)	I am satisfied that since my last report officers and members have demonstrated that they understand the implications of the decisions they make in regard to MRP.	None

Risk	Finding	Impact on VFM conclusion
Treasury Management	The Council has an adequate treasury management function. The treasury management strategy has been updated and approved by members. I reviewed the performance of the treasury management function I using CIPFA and SECTOR benchmarking data. There are no issues to report.	None

I am required to consider the Authority's arrangements to secure economy, efficiency and effectiveness.

For 2011/12 the Commission has determined that the scope of my work on value for money at the Authority is limited to:

- reviewing the Annual Governance Statement (AGS);
- reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on my responsibilities; and
- other risk-based work as suitable.

As I reported in my 2011/12 Audit Plan:

- I am not aware of any relevant work of other relevant regulatory bodies or inspectorates; and
- I have not identified any significant risks requiring specific risk-based work.

I have reviewed your AGS. This has improved over the years and the Council have plans to make it more succinct going forward. I have no matters that I need to report.

# Fees

## I reported my planned audit fee in the Audit Plan 2011/12.

I have agreed with the Director of Finance additional fee because of the matters highlighted in this report.

Which are:-

- the additional work required to review the amendments made to the previous years audited accounts;
- the availability of officers to answer the volume of queries on capital accounting and
- the extended testing required to ensure accruals issues did not have a material impact on the balance sheet.

Table 7: **Fees**

	<b>Planned fee 2011/12 (£)</b>	<b>Expected fee 2011/12 (£)</b>
Audit	280,800	280,800
Claims and returns	60,000	60,000
Additional fee	0	13,142
<b>Total</b>	<b>340,800</b>	<b>353,942</b>

The Audit Commission has paid a rebate of £22,000 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £ 331,942.

I would like to thank the officers for their time and continued support throughout the audit process.

# Appendix 1 Draft independent auditor's report

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Warrington Borough Council**

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

I have audited the financial statements of Warrington Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Warrington Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Chief Finance Officer and auditor**

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In

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

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Warrington Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

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

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

I report to you if

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

I have nothing to report in these respects

### **Auditor's responsibilities**

I report to you if, in my opinion, the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

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

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

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

## **Basis of conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

## **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Warrington Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

### **Delay in certification of completion of the audit**

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Judith Tench

District Auditor

September 2012

Audit Commission

2nd Floor, Aspinall House, Aspinall Close, Middlebrook, Bolton BL6 6QQ

## Appendix 2 Uncorrected errors

I identified the following errors during the audit which management have not addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Balance Sheet - Debtors	Includes £56k that are not true debtors but the balancing amount in the payroll suspense account. This account has not been cleared at the year end.				£56
Balance Sheet – Long term debtors	Includes £2m that should be accounted for as an investment				£2,000
Balance Sheet – Long term investments	Correction of above error			£2,000	
Balance Sheet – Creditors and Usable Reserves	Includes £123k of third party Trust funds that should not be accounted for in the Council's Balance Sheet			£123	£123
Balance Sheet – Short term creditors	Council has note accrued for £3.9m of expenditure relating to 2011/12	£3,855			£3,855
Balance Sheet – Short term creditors	The methodology used to estimate the holiday pay accrual for non teaching staff is flawed in a number resulting in understatement	not quantified			not quantified

	Statement of comprehensive income and expenditure	Balance sheet
Cash Flow statement – Adjustments to net surplus /deficit	The statement contains a balancing figure of £368k	

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## Appendix 3 Material corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

Item of account	Nature of error	Statement of comprehensive income and expenditure		Balance sheet	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Note 12 PPE – Cost as at 1 April 2011 and Depreciation and impairment balance as at 1 April 2011.	Entry overstated as incorrectly includes the cost of housing stock transferred to Golden Gates Housing in 2010/11			£329,844	£329,844
Note 12 PPE – Cost as at 31 March 2012 and Depreciation and impairment balance as at 31 March 2012	Overstated as does not include adjustment to write back impairment charges as required by the Code and IAS16			£27,083	£27,083
Note 40 Capital expenditure and capital financing – Closing capital financing requirement (CFR)	Understated. The balance of the deferred capital receipts reserve has been netted off the calculation			£32,090	
Note 43 – Impairment losses	Disclosed amount did not reflect the value of impairments.	£23,270			
HRA – Note 9 – Housing stock valuation – 2010/11 comparative	Inconsistent with the 2010/11 audited accounts				£234,826

# Appendix 4 Draft letter of management representation

Judith Tench  
Appointed Auditor  
Audit Commission  
Aspinall House, Aspinall Close  
Middlebrook  
Horwich, Bolton  
BL6 6QQ

LG/JH

Steven Broomhead  
Interim Chief Executive

Lynton Green  
Chief Finance Officer

New Town House  
Buttermarket Street  
Warrington  
WA1 2NH

27 September 2012

## **Warrington Borough Council - Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Warrington 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 2012. All representations cover the Council's Accounts and Group Accounts included within the financial statements.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

### **Uncorrected misstatements**

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Audit and Corporate Governance Committee and the reasons for not correcting these items are as follows:

- Due to their low value and the fact that they would make no material difference to any reader of the accounts
- xxxx

[This section must also include prior year uncorrected misstatements where still relevant.]

## **Supporting records**

I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

## **Internal control**

I have communicated to you all deficiencies in internal control of which I am aware.

During the year weaknesses were identified in the finance systems and financial management arrangements in Adults Services and the management of client finances. Detailed action plans are in place to address these weaknesses and improve the controls in place.

A review of policies and procedures within the Children with Disabilities Service considered an assessment of financial controls. Control weaknesses were found and a full action plan was implemented to address them.

I can confirm that the control weakness found has not resulted in material error in the Financial Statements or the occurrence of fraudulent activity.

## **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## **Law, regulations, contractual arrangements and codes of practice**

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

Transactions and events have been carried out in accordance with law, regulation or other authority. 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to

the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

For the valuation of financial instruments disclosed in Note 15 to the Financial Statements, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the process;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council, where relevant to the accounting estimates and disclosures; and
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Authority to adjust the accounting estimate and related disclosures included in the financial statements.

### **Treatment of Local Authority Mortgage Scheme**

During the year the Council launched The Local Authority Mortgage Scheme (LAMS) with Lloyds/TSB Bank which supported first time buyers in gaining a mortgage by providing a financial guarantee for 5% of the deposit. In accounting for LAMS in the Accounts the guarantee has been measured at the fair value of the premium paid to the local authority for the provision of the guarantee. The guarantee will be in place for five years and will be amortised over that period. This treatment does not followed the Audit Commission's recommended practice however I am satisfied with the approach we have taken is in line with FRS 12 and that there is no material difference in the two treatments that would impact on the accounts.

### **Unexplained Differences in the Financial Statements**

I can confirm that the unexplained differences identified during the audit of the Financial Statements are not material in nature. A detailed review of the differences will be undertaken post audit. The majority of the unexplained differences are summarised in the attached schedule.

Included within the cash flow statement is a balancing item of £368k that has not been corrected. Not correcting this item does not pose a risk to misstating the account as the value is not material.

## **Related party transactions**

I confirm that I have disclosed the identity of Warrington Borough Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the Code.

## **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

[Conditional - Comparative financial statements

A restatement of X was made to correct a material misstatement in the prior period financial statements. This affects the comparative information of Y. Written representations previously made in respect of the prior period remain appropriate.]

.Signed on behalf of Warrington Borough Council

I confirm that the this letter has been shared with the Chairman of the Audit and Corporate Governance Committee on 27 September 2012

Signed

Name: Lynton Green CPFA

Position: Chief Finance Officer

Date:



## Appendix 5 Glossary

### **Annual Audit Letter**

Letter 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 financial 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.

**Financial 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.

**Group accounts**

Consolidated financial 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 financial 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 financial 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 financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

## **Significance**

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 financial 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 financial statements.