Annual governance report

Warrington Borough Council

Audit 2010/11

Contents

Key messages

This report summarises the findings from the 2010/11 audit which is substantially 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.

Audit opinion and financial statements

I have not yet completed my audit work. There are four material areas where I have not yet been able to reach a conclusion.

I drew two of these matters to your attention in June 2011:

- accounting for the reclassified lease for Golden Square shopping centre (and other similar leases); and
- the determination of the minimum revenue provision (MRP) following the reclassification of the above leases.

I found unexplained differences between the capital assets module in SAP and Local Government accounting requirements. I am yet to determine whether these differences limit the scope of my audit opinion

Until these issues are resolved I am unable to tell you that my audit opinion will be unqualified. In addition I have not yet agreed the basis of the valuation of the housing PFI projects.

I will update the Audit and Governance Committee on all of these issues at the Chair's briefing on 21 September and at the meeting on 22 September 2011. At this stage I expect to issue an update report in advance of these meetings.

This has been a challenging year for the Council in terms of preparing its accounts. The accounts were subject to the application of International Financial Reporting standards (IFRS), for the first time. The Council successfully introduced its new SAP accounting system on 1 April 2010. The SAP capital assets module was implemented during November 2010 to March 2011. During the year I have also raised a number of complex technical issues with you.

Taken together these issues have led to a large number of discrepancies in the accounts. Together with internal audit I identified seven weaknesses in controls operating at the Council. The most significant matter, weaknesses in IT access controls, was drawn to your attention by internal audit. It is reflected as a significant control weakness in the Council's annual governance statement.

At this stage there are twelve material adjustments to the financial statements. There are four significant unexplained differences and eleven other unadjusted differences.

I found twenty six other less significant matters. Most of these relate to incorrect classifications or disclosures and have been adjusted by officers.

The Council's finance team worked hard to prepare the financial statements in line with the statutory deadline and to respond to queries during my audit visits. I recognise the challenging circumstances in which this has been undertaken. These include IFRS, large scale voluntary transfer and SAP. However, the financial statements presented for audit in June 2011 contained a number of material and other errors. The Council needs to continue to make further improvements to its arrangements for preparing accurate financial statements and responding to audit queries.

Value for money

At this stage I am unable to tell you that my value for money conclusion will be unqualified. I am yet to conclude how the Council's determination of MRP will impact upon my conclusion.

The Council has a track record of delivering significant savings and is achieving cost reductions by improving efficiency and productivity. During 2010/11 the Council took corrective action to manage in year pressures and reported an under spend of £1.2m at the year end. The 2010/11 budget variances were clearly understood and, in part, arose from exceptional pressures such as the cancellation of the Building Schools for the Future project by central government.

The Council's Medium Term Financial Plan projects a shortfall of £29m. Delivering these savings will be challenging. The savings plans are based on policy options considered during the budget setting process and include difficult decisions around service delivery, service redesign and reduction in staff numbers. The Council has a proven track record on financial planning. The overall arrangements continue to be effective and to provide a sound basis for it to address its future financial challenges.

Budget monitoring arrangements are effective in identifying and responding to in year pressures and changes. Financial controls include benchmarking and use of internal and external data. Internal audit have undertaken reviews of data quality during the year and the Council has identified scope for ongoing improvement.

The Council strengthened its financial governance arrangements during 20/11/12. The strategic management board (SMB) provides clear direction and effective challenge to financial matters and has fostered a culture of openness about the Council's financial position. The officer governance group has helped to embed governance and risk management more effectively across the Council.

The Council has performed well against its stated priorities and delivered improvements in key areas including safeguarding. Its financial planning arrangements continue to be effective and to provide a sound basis for the Council to address future financial challenges without impacting adversely on performance.

The 2009 OFSTED report on safeguarding and looked after children (2009) identified many inadequacies in the service leaving some children at risk of significant harm. The Council responded quickly and effectively to the issues raised in the report. When OFSTED returned in January 2011 they concluded that the Council and its partners are now meeting all of their statutory requirements. The Department of Education withdrew the Improvement Notice early on 28 February 2011.

Before I complete my audit

I confirm to you my independence and the scope of my audit work

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed 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 Ethical Standard 1 (revised) - Integrity, Objectivity and Independence. There are two Audit Commission employees who have declared an independence threat regarding the Council. One is a school governor in the Borough and one has a family member who works at the Council. I have ensured that neither of these individuals have worked on the Council’s audit or had access to the files. By applying this safeguard I have reduced this threat to my independence to an acceptably low level.

Audit fee

In June I discussed with you the impact that additional risks and technical issues arising in the year have had on the scope of my audit work. I will be charging additional fee as a result of this and I will confirm this amount in my annual audit letter in December following further discussions with officers.

I ask you to confirm to me that you have approved the accounts and agree the letter of representation

I ask the Audit and Governance Committee to:

- Consider the matters raised in this report before approving the financial statements.
- Take note of the adjustments to the financial statements which are set out in this report (Appendix 3).
- Approve the letter of representation on behalf of the Council before I issue my opinion and VFM conclusion. The draft letter of representation will be presented to members prior to the 22 September meeting and will reflect the outcome of the outstanding issues noted earlier in this report.
- Agree your response to proposed action plan (Appendix 5).

Financial statements

Opinion on the financial statements

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

Material changes have been made to the financial statements.

At this stage I am unable to tell you that my opinion will be unqualified.

I have not yet completed my work in a number of areas. At this stage I am unable to tell you that my audit opinion will be unqualified.

In addition to the four material areas outstanding set out in the key messages, I have yet to complete my work in the following areas at 15 September:

- review the work undertaken on our behalf by internal audit on accounts receivable;
- receive sufficient information to complete my work on capital and revenue grants;
- receive supporting information to complete my cut-off testing of year end transactions;
- complete my review of the cash flow statement;
- complete my final review procedures; and
- agree the final changes to the financial statements with officers.

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

The three material issues that may lead to a qualified audit opinion are:

- accounting for the reclassified lease for Golden Square shopping centre (and other similar leases);
- the determination of MRP; and
- the impact of unexplained differences between the capital assets module in SAP and Local Government accounting requirements.

I will update the Audit and Governance Committee at the Chair's briefing on 21 September and also at the meeting on 22 September 2011. At this stage I expect to issue an updated report in advance of these meetings.

The financial statements were presented to the Audit and Corporate Governance Committee on 29 June. This is good practice - it is no longer mandatory to present draft accounts to members prior to audit. Some councils struggled to prepare IFRS accounts by the 30 June deadline due to the significant changes to reporting requirements this year. Officers have also prepared the accounts for the first time using the new SAP accounting system which. This posed additional challenges and complexities.

Errors in the financial statements

The draft financial statements contained six material errors. I identified thirty six adjusted, four unexplained differences and eleven other unadjusted items in the accounts. These are listed in appendices 3 and 4. The most significant findings and recommendations are considered here.

Material classification adjustments

The accounts have been amended to correct twelve material classification errors:

- For 2010/11 pension liabilities were calculated using the consumer price index rather than the retail price index for the first time. The reduction in value of £53.9m is now correctly shown as an exceptional item in the comprehensive income and expenditure statement (CIES).
- As part of the transfer of Housing stock to Golden Gates Housing Trust, assets were re-valued resulting in impairments of £308m and £60.5m of central government funding for the write-off of PWLB loans. This income and expenditure was shown within Local Authority Housing in the CIES. It is now correctly shown as a separate exceptional item.
- The revaluation of HRA assets was incorrectly disclosed in the accounts. The notes incorrectly show assets being transferred to assets held for sale (note 20) prior to adjusting for the impact of revaluation. The revaluation is now correctly shown in note 12 (PPE) at the point where they were classified as held for sale.
- the accrual for short term accumulated absences, £8.8million, is now correctly shown as a creditor.
- The closing capital financing requirement was overstated by £59.7m. The accounts adjustment had not been made for repayment of HRA debt associated with the transfer of housing stock.
- The dedicated schools grant is incorrectly disclosed in note 38. It is shown correctly as £124m but a further £12m is shown in a separate line in the note.
- Movement in the value of investment properties and associated expenditure was incorrectly classified in the CIES within Central Services to the public. Expenditure of £11m has now been correctly shown as Financing & Investment Income & Expenditure.
- Revaluation losses on property plant and equipment were incorrectly disclosed as £9.9m in Note 7. This has been amended to nil.
- Revaluation losses on HRA assets incorrectly disclosed as £77m in Note 7. This has been amended to nil.
- The movement in marked value of Investment Properties of £8.6m was not separately disclosed in Note 7 as required by Code guidance. This has now been corrected.
- The value of capital grants credited to the CIES during the year but were unapplied at the year end was not separately disclosed in note 7. The note has been amended to reflect the £8.3m of grants received.

- The entry in the Capital Adjustment Account for grants applied to capital financing from the Capital Grants Unapplied Account was not consistent with that disclosed in the Capital Grants Unapplied Account. The entry has been adjusted by £11.9m to correct the discrepancy.

Other significant matters

Unexplained differences

There are three significant unexplained differences between the new SAP capital asset module and the Council's capital accounting records following IFRS adjustments to property, plant and equipment (PPE). Officers are unable to explain these differences. I cannot be certain that these differences are not *masking* larger figures that may be material.

- £3.8m difference between the systems for recording capital assets. A £3.8m adjustment between the CAA and revaluation reserve was included in *prior year comparatives* as part of the IFRS restatement. This adjustment brings the ledger into line with the asset register.
- £754,000 difference between the revaluation reserve and revaluation movements disclosed in note 12, PPE.
- £591,000 difference between the impairment charges on notes 12 and 20 and those reversed out of the CIES in note 7.

I am yet to determine whether these differences limit the scope of my audit opinion and I will update the Committee on this matter before I give my opinion.

Unadjusted differences

I found five other, less significant, differences which have not been amended in the financial statements:

- the journals required to remove NHS Warrington's £311,000 share of pooled budget transactions had not been processed at year end. We reported the same issue to you last year.
- ear-marked reserves incorrectly include Trust Funds of £116,000 belonging to third parties. I reported the same issue to you in both of the last two years.
- capitalised items include costs of £98,000 relating to an officer working on several projects. The Council are unable to provide evidence to support this accounting treatment. I also found £80,000 of revenue expenditure incorrectly treat as capital.
- internal creditors of up to £694,000 are incorrectly included within year end creditors; and
- the Collection Fund included a £780,000 difference between income and expenditure elements which are required to agree by the CIPFA/LASAAC Code on Local Authority Accounts.

I identified several other, mainly minor adjustments that were needed. I do not wish to draw your attention to any of these. I have provided a list of all the adjusted and unadjusted differences, for information, in appendices 3 and 4.

Working with internal audit

Internal audit undertook detailed testing on payroll transactions and accounts receivable. They also undertook specific work on the migration of data to the new accounting system and capital asset module. I was able to rely on their work. This enabled me to reduce the amount of substantive testing required in these areas.

Financial statements

Key audit risks

Key audit risks

I identified four key risks when planning my work:

- **Transition to International financial reporting standards (IFRS);**
- **calculation of the minimum revenue provision (MRP);**
- **large scale voluntary transfer (LSVT) of Council housing;**
- **replacement of the main financial system;**

During the year I identified three more risk areas:

- **IT access controls;**
- **the accounting treatment of reclassified finance leases; and**
- **capacity within the finance team.**

I reported four significant audit risks identified in my audit planning to the Audit and Governance Committee in January 2011. I updated the Committee on these and three further risk areas in June 2011. My risk assessment considers aspects of your accounting practices, accounting policies, accounting estimates and disclosures.

Key audit risk	Findings
Transition to IFRS The transition to IFRS is complex requiring reconsideration of previous accounting disclosures and presenting a significant amount of new information in a new format. Failures to implement the requirements could lead to material misstatement in the financial statements.	The Finance team planned early for the challenges of the transition to IFRS. They were proactive in considering the complex issues and changes required. The decision to implement a new system for capital assets from November 2010 to March 2011 delayed completion of the restated 2008/09 balance sheet and 2009/10 financial statements. I return to this issue later. I was unable to complete my work on IFRS in advance of the main audit of the 2010/11 financial statements as planned. The treatment of capital grants under IFRS is a key change to the accounts. The supporting documentation for capital grants does not provide sufficient information under IFRS.
Calculation of MRP During 2009/10 the Council recalculated MRP following reclassification of a number of leases. MRP was reduced to £1 to reflect an 'over-charge' of £2.1m in respect of these leases. In 2009/10 this was treated as an unadjusted difference. We agreed to revisit it in 2010/11.	In 2010/11 the Chief Finance Officer reduced MRP by a further £2.7m of 'overcharged' MRP arising from the recalculation in 2009/10. I wrote to the Assistant Chief Executive and Chief Finance Officer on 6 September 2011 setting out my provisional audit view. I am meeting them on 14 September 2011 and will consider their response.

Key audit risk	Findings
LSVT The transfer of Council dwellings valued at £300m (in the 2009/10 accounts) in November 2010. LSVT is a complex and technically challenging area. Given the value and complexity of the transactions I identified a significant risk that the accounts could be materially misstated.	I discussed the risks with officers before and after the transfer. Early meetings resolved many technical accounting issues: ■ revaluation of the housing stock; ■ the revised status of group entities once the ALMO became a housing association; and ■ details of the VAT *shelter* under the new arrangements. I found some errors in the accounts relating to how the revaluation of the properties was recorded. I also found some minor disclosure differences. Our early start on this work meant that most of the fundamental issues were discussed and agreed before the accounts were approved in June 2011. This resulted in an efficient audit process.
Replacement of the main financial system The Council replaced their financial ledger and key supporting systems at the start of 2010/11 with an integrated system (SAP). From November 2010 to March 2011 the Council also implemented the capital asset module within SAP. Technical difficulties led to significant problems in restating the 2009/10 accounts under IFRS and preparing the 2010/11 accounts.	Internal audit undertook work on the migration of financial data to the new system at the start of the financial year and also in March 2011 when the capital asset module went live. I was able to rely on their work. The Council continued to develop controls over the new system and main feeder systems during year. I am unable to rely on any control not operating throughout the year. These issues led me to reconsider my audit risk assessment in line with International auditing standards. Because key controls were not in place throughout the year there is an increased risk that the Council's accounts contain a material error. I planned extra testing to provide sufficient audit assurance that this was not the case. I found no material errors. I also found weaknesses in the new capital asset module. I return to this matter later.

Key audit risk	Findings
IT access controls Internal Audit reported a significant weakness in IT access controls to you during the year. Their report of SAP system security gave minimal assurance. I also reported this issue to you in June 2011. The Council's IT consultants maintained *superuser* access to the live financial systems throughout 2010/11 and in the first quarter of 2011/12. The inbuilt audit trail facilities were not being used. Neither I, nor your Internal Auditors, could see what amendments had been made to the system. This created a risk of unauthorised entries being made in the general ledger and other key financial systems. This risk could lead to a material misstatement of the Council's accounts.	This finding was discussed with officers during the course of the audit. Because of this risk I extended my detailed testing of transactions in 2010/11. I found no incidences of fraud or material misstatement. I return to this issue later.
The accounting treatment of reclassified finance leases During 2009/10 the Council reclassified leases from operating leases to finance leases. I disagreed with the accounting treatment of this reclassification including £30m in respect of the Golden Square Shopping Centre. The Chief Finance Officer agreed to include a capital receipt of £32m the Council's 2009/10 and the matter was closed. My predecessor included this issue in her 2009/10 report.	In May 2011 the Chief Finance Officer decided that he wished to revisit the revised accounting treatment shown in the 2009/10 audited accounts. The draft 2010/11 accounts reverse the entries agreed during the 2009/10 audit. I wrote to the Assistant Chief Executive and Chief Finance Officer on 6 September 2011 setting out my provisional audit view. I am meeting them on 14 September 2011 and will consider their response.

Key audit risk	Findings
Capacity within the finance team A member of the finance team involved in the preparation of the financial statements left in March 2011. There was a risk that this reduction in capacity would leave a significant gap and may lead to delays in completing the audit.	The finance team completed the financial statements and answered audit queries even with reduced capacity. However, there were other challenges this year: ■ delays on IFRS transition due to the timing of the new capital assets module; ■ ongoing weaknesses in the systems for recording capital assets in line with Local Government accounting requirements; ■ impact of the new SAP system, in particular in relation to timing and suitability of some reports; and ■ significantly increased audit testing required as a result of access control risks on the system. These challenges created a backlog of work for some officers and inevitable delays in responding to some technical issues. Some of these issues will not recur in 2011/12.

Financial statements

Weaknesses in internal control

Weaknesses in internal control

I identified control weaknesses in the following areas:

- **IT access controls;**
- **transactions without a purchase order;**
- **controls over journals;**
- **compliance with authorisation limits;**
- **reconciliations between the systems for recording capital asset; and**
- **financial data relating to stores transactions.**

The Chief Finance Officer will make specific reference to the control weaknesses below, in his letter of representation. A draft of the letter is attached at Appendix 2.

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Description of weakness:	Potential effect:	Findings and management action:
IT access controls System development consultants (*superusers*) had access to the live financial system throughout 2010/11. Effective controls to restrict and monitor their movement were not put in place.	This increased the risk of unauthorised and inappropriate entries being made in the general ledger and other key financial systems. Because I could not rely on any of the systems automated controls a lot of additional audit work was required.	Neither I nor Internal audit found any inappropriate access. The Council has limited *superuser* access since June 2011. The Council should also consider how such access is controlled within SAP and on any other significant IT projects.
Transactions with no purchase order My testing of payments within the accounts payable system identified a high proportion of payments (83% of my sample) made without raising a purchase order (PO).	Without a PO the authorisation processes in SAP are by-passed until the invoice is presented. The high level of transactions raised without a PO place greater reliance on budgetary control procedures to ensure expenditure is appropriate and properly authorised.	I did not identify any errors in the sample. The Council should: ■ continue to monitor the level of purchases made outside the PO system; and ■ take steps to limit the circumstances where staff are able to by-pass PO controls.

Description of weakness:	Potential effect:	Findings and management action:
Journals My sample of income and expenditure transactions includes a high proportion of journals (36% of my income and expenditure sample). Some journals will always be necessary and are inevitable. But there are more than we would expect. In addition, there are no automated controls within SAP to ensure that journals are properly checked and authorised. The finance team maintain a separate, manual record of authorisations.	Journals are manual adjustments to the ledger and are more vulnerable to error and manipulation. They are also time consuming for officers to prepare and check.	I found no inappropriate journals. But it has taken a significant amount of extra audit work to reach this position. The Council should review the number and nature of journal adjustments and consider ways of reducing them, through a "right first time" culture throughout all departments. The Council should consider means of automating the authorisation procedures.
Authorisation limits My testing of expenditure transactions identified nine incidences where staff had authorised transactions above their authorisation limits. Internal audit are currently considering my findings further to investigate whether there are specific reasons and mitigations for any of these apparent breaches.	There is a risk that Council expenditure is not properly authorised and inappropriate transactions are approved. The Council's budget monitoring arrangements would identify significant discrepancies.	I did not find any instances where this weakness resulted in staff authorising inappropriate expenditure. The Council should ensure that the financial regulations, list of authorised signatories, and limits permitted within SAP are all consistent throughout each accounting period and are reviewed regularly.
Reconciliations between the systems for recording capital assets In 2009/10 the finance team reconciled the information held in the capital asset register to the records held by the estates team. This is a key control. At the end of 2010/11 this reconciliation was not done due to the technical difficulties arising from the SAP capital asset module. I undertook additional testing to gain assurance on the existence of the assets recorded in the Council's accounts.	There is a risk that movements in capital assets identified by the estates team are not included in the ledger.	My testing did not identify errors specifically arising from this weakness. The Council should reinstate the reconciliation between information held in SAP on capital assets and the information held by the estates team.

Description of weakness:	Potential effect:	Findings and management action:
Audit trail of stores transactions Information to support the requisition of goods and equipment from the stores department over a six week period is missing. The paper records transferred from the central store to the finance department cannot be found. Officers were confident that the loss of information had only occurred within this period. I have not undertaken additional work to verify this.	Requisition of goods and equipment during this period may be inappropriate.	I undertook additional work to ensure the validity of the transactions sampled. I did not identify any errors within my sample. I understand that the stores team have made alternative arrangements for retaining authorisation records. The Council should review archiving and storage of all financial information to ensure that they retain a proper audit trail of all transactions.

In June 2011 I reported to you matters arising from my pre-statements audit. I identified some weaknesses in systems and controls on material accounting systems:

- Payroll – weaknesses in authorisation procedures for changes to payroll information (especially from schools). Formal establishment checks were not been undertaken which would confirm that all staff on the payroll are employed within the Council. Therefore we were unable to rely on these systems and had to increase the number of transactions tested. I was able to gain sufficient audit assurance from this extended testing.
- Accounts receivable (debtors) – internal audit work on the system provided only limited assurance. They were unable to identify sufficient key controls which I could test and place reliance on. As a result I had to increase the number of transactions I tested in order to conclude that accounts receivable are not materially misstated.

I will follow up each of these areas as part of my 2011/12 audit work.

Recommendations

The following recommendations are included in the action plan at appendix 5. The Council should implement the recommendation set out in internal audit's report on SAP system security. These include:

R1 Ensuring proper procedures are in place to restrict and control superuser access in the SAP system.

R2 Ensure that for future IT projects clear protocols are agreed to monitor and control:

- the extent of contractor *superuser* access to the system;
- authorisation of changes made by contractors; and a

- clear end date for access.

The Council should also:

R3 Ensure that most purchases are made through the purchase order system in SAP.

R4 Review the level of journals posted to the ledger and consider ways to limit the need for them.

R5 Consider the implementation of automated journal authorisation processes rather than relying on manual authorisation outside of SAP.

R6 Ensure that staff comply with established authorisation levels. This should be monitored throughout the year. In particular, school authorisation procedures should be monitored to ensure they are kept up to date.

R7 Implement periodic reconciliations between the capital asset register and information on capital assets held by the estates department to ensure that the financial records are complete. This should be undertaken at least at each year end.

R8 Review its arrangements for maintaining stores records to ensure they are retained for an appropriate period and can be found when needed.

R9 Implement formal establishment checks to ensure that staff paid through the payroll are actually working for the Authority.

R10 Review the controls and procedures in place to ensure that accounts payable are effectively managed. They should note the recommendations of the internal audit report issued in January 2011.

Financial statements

Quality and other matters

Quality of financial statements

The quality of the Council's accounts still needs to improve.

I found a large number of errors and my audit work took longer than planned.

The accounts presented for audit included a large number of errors including twelve material classification errors. I recognise that some improvements were made for 2010/11, for example the coding and management of recharges, the structure for providing the auditors with working papers, and the quality of some areas in the accounts such as financial instruments and group accounts. But the quality, accuracy and efficiency of the Council's processes for preparing its annual accounts can be improved.

The preparation of the Council's 2010/11 accounts was particularly challenging. In addition to the successful implementation of the new accounting system on 1 April 2010 officers also had to cope with other significant changes. These include the reporting requirements of IFRS and other changes to CIPFA/LASAACs Code of Practice on Local Authority Accounting 2010/11 and CIPFA's Code Guidance Notes. I found a number of specific areas where the quality of the financial statements was compromised. Many of these flow from the introduction of IFRS.

The capital asset module

The implementation of the capital asset module was not completed until late March 2011. This led to problems during closedown. It resulted in three significant differences which officers are unable to explain. The new system does not properly reflect the complexities of local government accounting requirements regarding impairments and revaluations of PPE, investment properties and assets held for sale. As a result officers did manual adjustments to the revaluation reserve and capital adjustment accounts

The problems associated with the implementation delayed the restatement of the Council's accounts required under IFRS. Officers had insufficient time and capacity to resolve these issues. I was unable to complete my testing of the restated 1 April 2009 balance sheet and the 2009/10 accounts as planned.

I am yet to determine whether these unexplained differences limit the scope of my audit opinion. I will update the Committee in writing on this matter before I give my audit opinion.

Reporting functionality/IT team capacity

During the audit I experienced delays in getting information I required to support some of the entries in the Council's accounts. For example journal reports, analysis of income and expenditure and breakdowns of some ledger codes were subject to delays of several weeks. It is clear from discussions with officers that they have also experienced challenges in obtaining some of the reports they need from the new SAP system. Some of these delays may be resolved as officers become more familiar with SAP. The Council should also consider whether there is sufficient IT capacity to manage the requirements of the new system.

Recurrent issues

I identified two errors which had been identified in previous years, and raised in my 2009/10 annual governance report, yet had still not been correctly accounted for in 2010/11:

- Pooled budgets – the journals required to remove the NHS share of transactions from the ledger had not been processed at year end; and
- Third party trust funds – these had not been excluded from earmarked reserves.

The finance team must ensure these are correctly accounted for in 2011/12.

Management information

I identified two areas where the Council does not currently collect sufficient information to support decisions made when accounting for grants and identifying capital expenditure.

- Grants– under IFRS grants received are accounted for differently depending on the grant conditions in place and whether these have been met. The grant register was put in place prior to the transition to IFRS and does not currently capture sufficient information on grant conditions. My detailed audit testing found there was limited information available to support this, and that the nature of the conditions associated with the grant were not recorded.
- Identifying capital expenditure – my review of items treated as capital identified £80,000 of transactions which were revenue but had been included because they had been incurred as part of a capital project (including promotional material and hospitality costs). I also identified one item where the costs of one officer (£98,000) were capitalised in full. There was insufficient information to support this accounting treatment. Information about the time the officer had spent on the capital project was not collected.

Improvements in arrangements for recharging income and expenditure

In 2009/10 my predecessor reported errors and weaknesses in the recoding of centrally allocated income and expenditure. She identified some errors where transactions had been double-counted in the financial statements and observed that the finance team had undertaken significant additional work to identify and eliminate *recharged* transactions.

In 2010/11, in the new accounting system, specific codes have been used to capture *recharged* transactions. Officers have excluded these from the financial statements. I have found no examples of double-counting in the financial statements.

Working papers and responses to audit queries

The finance team improved their process for providing electronic working papers to my audit team and for monitoring and responding to matters arising during the audit. I identified specific improvements in the working papers and accuracy of group accounts and the financial instruments note.

Much of the core information needed was provided at the start of the audit. However there were some areas where working papers were not available at the start or where full reconciliations were not initially provided. The improved process provides a good platform for further improvements in 2011/12

Responses to some audit queries at the start of the audit were slow. As the audit progressed, members of the finance team took a more central role in coordinating responses and liaising with other officers. This improved process needs to be in place throughout the audit in future.

Other matters

Related party transactions

Last year my predecessor identified weaknesses in the way officers used information on member interests to compile the note on related party transactions. In my audit plan in January 2011 I also told you about the additional requirements in 2010/11 (arising from IFRS) to assess the systems and procedures in place to collate related parties information for members and officers.

Following meetings with the finance team during the early part of 2011, officers formalised and improved the arrangements in place to collect related party information. For example, departments formally assessed which officers were required to make a declaration of interests (depending on their level of responsibility). The updated registers, along with those relating to members' interests were passed to the finance team. Internal audit did a detailed review of the information and identified a number of related parties to be disclosed in the accounts. I reviewed this work and was satisfied that a robust system was in place.

But from my review of the financial statements it is clear that this information was not then used to compile the related party note. None of the potential related parties identified by the Internal Audit review were included. I found no evidence to support the decision to exclude them.

I identified a significant number of omissions from the note and asked officers to reconsider it. I have now received the revised note.

Annual Governance Statement

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

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. The draft letter of representation will be presented to members prior to the 22 September meeting and will reflect the outcome of the outstanding issues noted earlier in this report.

Recommendations

The following recommendations are included in the action plan at appendix 5. The Council should:

R11 Resolve the issues in SAP to ensure that it can correctly process local government accounting requirements and that all unexplained differences are resolved as soon as possible.

R12 Review SAP reporting functions, assess further training requirements and the capacity of the IT team to manage the requirements of the new system.

R13 Ensure that adjusted and unadjusted differences arising from the audit are reviewed as part of their closedown procedures for 2011/12 and in particular that recurrent errors are addressed.

R14 Consider improvements to the capture and retention of information to support accounting decisions. In particular, they should:

- improve the extent of information recorded in the grants register;
- retain sufficient information to support decisions to capitalise expenditure on staff costs; and
- ensure that all officers making accounting decisions understand capital accounting requirements and do not attempt to capitalise items that are clearly revenue.

R15	Review the working papers provided for the 2010/11 audit and ensure that all the equivalent papers for 2011/12 audit are available from the start of the audit visit.
R16	Ensure that audit queries are managed and coordinated in a timely way throughout the audit process.
R17	Maintain the process for identifying and collating the declarations of interest for members and officers throughout 2011/12 and ensure this is updated as appropriate.
R18	Ensure that a formal process is put in place to review declarations of interest and use them to complete the related parties note in the accounts. Officers should clearly document their judgements on whether matters are material or can be excluded from the note.

Value for money

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

Value for money

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My findings and conclusion on each of the two areas specified in 2010/11 are below.

At this stage I am unable to tell you that my value for money conclusion will be unqualified. I am yet to conclude how the Council's determination of MRP will impact upon my conclusion.

The Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Criteria	Findings
1. Financial resilience **The organisation has proper arrangements in place to secure financial resilience.** Focus for 2010/11: 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.	The Council has effective arrangements for financial governance, planning and control. Financial stability remains a key priority for the Council. The medium term financial plan (MTFP) and strategy for 2010/11 to 2012/13 sets out how the Council will manage resources over the medium term. It projects a shortfall of £29m. In recent years the Council has maintained a general fund reserve of £976,000. At 31 March 2011 the Council had general fund earmarked reserves of £19.7m. This includes two earmarked reserves available to support spending pressures: ■ Medium term financial plan reserve - £3.99m. This money is set aside to fund future reductions in government grant levels and mitigate the impact of any changes on service provision. ■ Strategic reserve - £4.76m. This money is set aside to cover emergencies such as unforeseen financial liabilities or natural disasters. The Council set a challenging budget for 2010/11 that included a savings target of £14.4m. Against this background the reported under spend of £1.2m at the year end was a good outcome. During the year the Council took appropriate action to manage the impact of the local government settlement and took corrective action when required. The 2011/12 budget includes planned savings of £22.8m. Delivering these savings was always expected to be challenging. The first quarterly monitoring

	forecasts that £18m of the planned savings will be delivered. Each Directorate has been set a further one off contribution to a savings target of £2m towards helping achieve a balanced budget. The Chief Finance Officer is also doing a review of provisions and reserves to ensure they are still required. The report forecasts an over spend of £2.46m at the year end. Delays in restructuring plans account for a significant proportion of this. The Council remains confident that departments can mitigate any overspends with alternative savings and that there are sufficient earmarked reserves available to manage the year end position. The Council has a proven track record on financial planning. The overall arrangements continue to be effective and to provide a sound basis for it to address future financial challenges. These include difficult decisions around service delivery, service redesign and reduction in staff numbers. Budget monitoring arrangements are effective in identifying and responding to in year pressures and changes. The 2010/11 budget variances were clearly understood and, in part, arose from exceptional pressures such as the cancellation of BSF projects by central government. Financial controls include benchmarking and use of internal and external data. Internal audit have undertaken reviews of data quality during the year and the Council has identified scope for ongoing improvement. The Council strengthened its financial governance arrangements during 20/11/12 through the work of internal audit, the officer level governance group and Strategic Management Board (SMB) informing the Audit and Corporate Governance Committee. The Committee was effectively supported by the new Head of Internal Audit. SMB provided clear direction and effective challenge to financial matters and has fostered a culture of openness about the Council's financial position. The governance group has helped to embed governance and risk management more effectively across the Council. The Audit and Governance Committee improved its effectiveness during the period following a formal self-assessment. Recent changes in membership should help to further improve the challenge, by members, of audit and governance processes.
2. Securing economy efficiency and effectiveness **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**	The Council has effective arrangements in place for prioritising resources and improving efficiency and productivity. It has performed well against its stated priorities and delivered improvements in key areas including safeguarding. Its financial planning arrangements continue to be effective and to provide a sound basis for the Council to address future financial challenges without impacting adversely on performance.

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 has a good track record in consulting staff and stakeholders on its priorities and factoring these views into the financial planning process. The savings set out in the MTFP are based on policy options considered during the budget setting process and flow from: ■ service reviews and redesign changing how and where services are delivered; ■ considering options for sharing services and functions with other councils; and ■ restructuring proposals. Through the service challenge process and development of its MTFP the Council made good use of detailed cost and performance information to identify efficiencies and savings. The Council also commissioned external consultants LG Futures to review its savings proposals and provide a further level of challenge. Financial and performance monitoring arrangements are in place to assess the impact of service redesign, savings and invest-to-save schemes. A project management approach is being applied to the delivery of savings schemes. Each initiative has a lead officer and project plan and is monitored and reported on as part of the Council's budget management arrangements. Red/Amber/Green (RAG) ratings are used to help members focus on how projects are progressing. In March 2010 Internal Audit reported concerns about the Council's data quality arrangements. Some corporate health indicators were not clearly defined, which then made target setting and performance reporting difficult. Whilst these issues are important, we do not believe that they negate our assessment because the Council has put in place specific arrangements to develop and monitor its MTFP. The areas identified for improvement by Internal Audit should be addressed to ensure that all financial and performance information reported to members is consistent, robust and meaningful. Review of comparative data confirms that Warrington is a lower spending unitary, falling into the 25th percentile of all unitary councils. Overall spend per head and income profiles show a similar distribution to other unitary councils. The cost of collecting Council Tax and NNDR compares favourably with other unitary councils and has reduced in recent years as the Council has sought to maximise payment by direct debit. Collection performance has also improved as a result.

Warrington maintains a relatively high value of non-operational assets (when measured as a proportion of total net spend) in comparison with other unitary councils. In recent years the Council has reviewed its asset holdings and sought to dispose of assets which are not critical to its corporate priorities. It should continue to assess the resources required to maintain these assets against the value gained from their ownership.

The OFSTED report on safeguarding and looked after children (2009) identified many inadequacies in the service. The report concluded that the capacity to improve safeguarding arrangements was inadequate. The Council responded quickly and effectively. When OFSTED returned in January 2011 they concluded that the Council and its partners are now meeting all of their statutory requirements. Inspectors noted the wide range of improvements made, in particular in the effective response now provided by the Duty and Assessment Team and the extensive restructuring of social care. The Improvement Notice was withdrawn early on 28 February 2011. The Department of Education review commented on the decisive and impressive action taken in driving essential improvements and the considerable success in addressing serious workforce difficulties. The strong and visible corporate support was noted.

Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

There are no matters that I wish to draw to your attention.

Appendix 1 - Independent auditor's report to the members of Warrington Borough Council

Opinion on the Authority accounting statements

To follow

Appendix 2 – Letter of representation

To follow

The draft letter of representation will be presented to members prior to the 22 September meeting and will reflect the outcome of the outstanding issues noted earlier in this report.

Appendix 3 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Short term accrued benefits for 2008/09, 2009/10 and 2010/11 overstated in respect of teachers.	2010/11 accrual overstated by £3.2m but offset by impact of opening 2009/10 overstatement of £4.7m and 2008/09 balance overstated by £2.7m	4,700 2009/10 reversed across C&E cost of service	3,200 2010/11 across C&E cost of service	3,200 10/11 accrual 4,700 09/10 accrual 2,700 08/09 accrual	
LSVT adjustments between HRA and CI&E	Incorrect treatment of the premium on the £62m repayment of PWLB. The premium had been charged solely to the CI&E and should have been split and partly included on the HRA	1,501 CI&E financing income 1,501 HRA interest payable	1,501 HRA sums directed by SOS 1,501 CI&E exceptional		

Adjusted misstatement	Nature of required adjustment	Comprehensive income and expenditure statement Dr £000s	Comprehensive income and expenditure statement Cr £000s	Balance sheet Dr £000s	Balance sheet Cr £000s
Significant Classification Adjustments					
CI&E statement: exceptional items - pensions	The impact of the change in valuation of pension liabilities (from RPI to CPI) is so significant in 2010/11 that it should be shown separately on the face of the CI&E	53,858 Non distributed costs	53,858 Exceptional		
CI&E statement: exceptional items - LSVT revaluations	Similarly, the value of impairments to housing property and the central government funding received to write-off related PWLB loans should be shown separately on the face of the CI&E	314,292 Exceptional 60,512 LA Housing	314,292 LA Housing 60,512 Exceptional		
Balance sheet provisions/creditors	Accrual for short term staff absences in provisions to be moved to accruals			8,793 Provisions	8,793 Accruals
LSVT housing stock revaluation adjustments in note 12 (PPE) and note 20 (assets held for sale).	**Note 12 adjustments** The housing stock revaluation should be reflected in the PPE note and transferred to "assets held for sale" at the revalued amount of £3.9m rather than transferred at original value and revalued in the assets held for sale note. **Note 20 Adjustments** Should transfer in at revalued amount and be written down to nil (as disposal costs matched the sales proceeds of £3.9m)			235,395 reclass and transfer 231,488 Impairment losses 235,396 Assets declassified as held for sale	3,907 reclass as held for sale 231,626 Transfers 3,907 impairment losses
Balance sheet creditors	Grants in advance to be included as a separate line in the balance sheet			7,529 long term creditors	7,529 grant receipts in advance

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
CI&E taxation and non-specific grant income Balance sheet long term creditors	Short term capital debtors relating to grant income has been incorrectly included in long term creditors but should have been recognised as income in the period		6,759 grant income	6,759 long term creditors	
Balance sheet creditors/debtors	VAT debtor incorrectly included in short term creditors			3,465 VAT debtor	3,465 s/t creditors
Balance sheet provisions/creditors	Rent overpayment claim provided for within provisions moved to creditors as now payable			1,100 s/t creditors	1,100 provisions
HRA	Water rate payments moved from “supervision and management” to “rents, rates and taxes”	1,541 HRA expenditure	1,541 HRA expenditure		
CI&E classification adjustments	Loss on revaluation of investment properties and loss on disposal of non-current assets had been included in the incorrect lines of the CI&E	11,395 financing and investment I&E	359 other operating expenditure 11,036 central services		

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Note 7 Adjustments under Regulations	Capital receipts from the sale of non-current assets was Inconsistent with note 23 Capital Receipts Reserve			7,686 Note 7	
Note 7 charges for depreciation and impairment of non current assets general fund	Entries within the notes are not consistent (note 7 and note 12 PPE)				2092 Note 7
Note 7 charges for depreciation and impairment of non current assets HRA	Entries within the notes are not consistent (note 7 and note 12 PPE and 20 Assets held for sale)				76,959 Note 7
Note 7 revaluation losses on property plant and equipment general fund	Entry in draft accounts incorrect – should be nil.			9,880 Note 7	
Note 7 revaluation losses on property plant and equipment HRA	Entry in draft accounts incorrect – should be nil.			76,959 Note 7	
Note 7 movements in the market value of investment properties	Entry in draft accounts is inconsistent with the movement in note 13				8,556 Note 7
Note 7 amortisation of intangible assets	Entry in draft accounts is inconsistent with the movement in note 14				715 Note 7
Note 7 capital grants receivable and unapplied in the year including capital grants unapplied carried forward which have been used for financing in the year - general fund	Entry in draft accounts is inconsistent with the capital grants unapplied account			8,339 Note 7	

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Note 7 capital grants receivable and unapplied in the year including capital grants unapplied carried forward which have been used – capital grants unapplied	Entry in draft accounts is inconsistent with the capital grants unapplied account				1,482 Note 7
Note 7 carrying amount of non current assets sold	Entry in draft accounts is inconsistent with other entries in the accounts				6,881 Note 7
Note 7 use of capital receipts reserve to finance new capital expenditure	Entry in draft accounts is inconsistent with other entries in the accounts			2,473 Note 7	
Note 7 use of major repairs reserve to finance new capital expenditure	Entry in draft accounts is inconsistent with movement in the major repairs reserve.			2,983	
Note 12 VPE additions	£637k additions incorrectly shown as revaluation movements			637 Note 12	637 Note 12
Note 13 Investment properties	Investment property income had not been included in note 13	3,483 operating expenses	3,013 income		
Note 21 short term creditors	Short term Govt department creditor included in trade creditors			7,592 trade creditors	7,592 Govt dept s/t creditors
Note 23 Usable reserves	Capital receipts used for financing in the capital receipts reserve was inconsistent with value in note 40				176 Note 23
Note 24 Unusable reserves – capital adjustment account	CAA use of major repairs reserve entry is inconsistent with the major repairs reserve itself				2,983 CAA

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Note 24 Unusable reserves and note 40 Capital Expenditure and Capital Financing	Both notes excluded the MRP per note 7			336 Note 40 MRP	336 Note 24 CAA
Note 24 Unusable reserves (CAA) and note 7 Adjustments under Regulations	Capital grants and contributions were inconsistent between the two notes and both required correction			573 Note 24	672 Note 7
Note 24 CAA application of grants to capital financing from the capital grants unapplied account	Entry inconsistent with the capital grants unapplied account				9,162 Note 24 CAA
Note 38 Grant income credited to services	Within note 38 the dedicated schools grant had been double-counted			11,875 DSG	
Note 40 Capital expenditure and capital financing	Opening and closing capital financing requirements in note 40 were inconsistent with the figures on the balance sheet				149 opening 59,740 closing
Note 43 Impairments	Impairment for council dwellings is not consistent with note 12			2,826 Note 43	
Note 43 Impairments	Impairment for land and buildings not consistent with note 12			364 Note 43	

Appendix 4 – Unadjusted differences in the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted difference	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
CIES gross expenditure and balance sheet accruals	An invoice had been accrued twice, as a non-PO invoice and within the PO system		243 Cost of service	243 Accrual	
Balance sheet PPE and cost of service (REFCUS)	Payments which do not give rise to an asset incorrectly included as capital additions – should be charged to revenue and adjusted as REFCUS	225 Cost of service			225 PPE additions
Balance sheet: assets held for sale comparative	2009/10 balance was overstated as asset had been sold			115 2009/10	
Pooled budget adjustments	Balances within the pooled budget relating to the PCT had not been processed through the ledger			311 creditors	149 debtors 162 notional cash

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted differences	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
CIES cost of service/balance sheet PPE	£98k costs of staff capitalised without evidence to prove that it is not revenue and £80k of other costs capitalised which are clearly revenue	98 80 cost of service			98 80 additions to PPE
Balance sheet creditors	Creditors sample included £35k internal creditor. Extrapolated to £694k based on statistical sample size		694 CIES cost of service	694 creditors	
Balance sheet: revaluation reserve and CIES cost of service	Impairments overstated as the relevant accumulated depreciation in the revaluation reserve had not been utilised		436 Cost of service	436 Revaluation reserve	
Earmarked reserves	Trust funds belonging to third parties incorrectly included within the Council's own reserves			116 reserves	116 cash
Collection fund income and expenditure	There is a £780,000 difference between income and expenditure elements on the collection fund (CF). There are required to balance per the code. The differences mainly arise from the treatment of bad debts and write-offs.	781 CF income 163 CFexp	944 CF expenditure		
Balance sheet short term creditors	Includes £6m of developer contributions more appropriately classed as long term creditors			6,026	6,026
Note 38 Income from revenue grants	Incorrectly include £2.7m income relating to housing benefit and council tax overpayments	2,712 Note 38			

		Comprehensive income and expenditure statement		Balance sheet	
Unexplained differences	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Unexplained differences					
Balance sheet revaluation reserve	Unexplained discrepancies between movements on revaluation reserve and movements in Note 12 PPE				Estimate 758 revaluation reserve
Balance sheet – capital adjustment account	Charges for depreciation and impairment of non-current assets in CAA do not reconcile to Note 12 PPE and the differences cannot be explained			591 CAA	
Balance sheet – capital adjustment account	Unexplained, unreconciled adjustment to the CAA to ensure consistency with the revaluation reserve following IFRS transition			3,855 revaluation reserve	3,855 CAA
Note 7 Transfers from HRA	Figure disclosed in note 7 includes £769k which the Council is unable to explain	769 Note 7			

Appendix 5 - Action plan

Recommendations
Recommendation 1
Ensure proper procedures are in place to restrict and control superuser access in the SAP system.
Comments
Recommendation 2
Ensure that for future IT projects clear protocols are agreed to monitor and control: ■ the extent of contractor superuser access to the system; ■ authorisation of changes made by contractors; and a ■ clear end date for access
Comments
Recommendation 3
Ensure that most purchases are made through the purchase order system in SAP.
Comments
Recommendation 4
Review the level of journals posted to the ledger and consider ways to limit the need for them.
Comments

Recommendation 5

Consider the implementation of automated journal authorisation processes rather than relying on manual authorisation outside of SAP.

Comments

Recommendation 6

Ensure that staff comply with established authorisation levels. This should be monitored throughout the year. In particular, school authorisation procedures should be monitored to ensure they are kept up to date.

Comments

Recommendation 7

Implement periodic reconciliations between the capital asset register and information on capital assets held by the estates department to ensure that the financial records are complete. This should be undertaken at least at each year end.

Comments

Recommendation 8

Review its arrangements for maintaining stores records to ensure they are retained for the statutory period and can be found when needed.

Comments

Recommendation 9

Implement formal establishment checks to ensure that staff paid through the payroll are actually working for the Authority.

Comments

Recommendation 10

Review the controls and procedures in place to ensure that accounts payable are effectively managed. They should note the recommendations of the internal audit report issued in [July] 2011.

Comments

Recommendation 11

Resolve the issues in SAP to ensure that it can correctly process local government accounting requirements and that all unexplained differences are resolved as soon as possible.

Comments

Recommendation 12

Review SAP reporting functions, assess further training requirements and capacity of the IT team to manage the new system.

Comments

Recommendation 13

Ensure that adjusted and unadjusted differences arising from the audit are reviewed as part of their closedown procedures for 2011/12 and in particular that recurrent errors are addressed.

Comments

Recommendation 14

Consider improvements to the capture and retention of information to support accounting decisions. In particular, they should:

- improve the extent of information recorded in the grants register;
- retain sufficient information to support decisions to capitalise expenditure on staff costs; and
- ensure that all officers making accounting decisions understand capital accounting requirements and do not attempt to capitalise items that are clearly revenue

Comments

Recommendation 15

Review the working papers provided for the 2010/11 audit and ensure that all the equivalent papers for 2011/12 audit are available from the start of the audit visit.

Comments

Recommendation 16

Ensure that audit queries are managed and coordinated in a timely way throughout the audit process.

Comments

Recommendation 17

Maintain the process for identifying and collating the declarations of interest for members and officers throughout 2011/12 and ensure this is updated as appropriate.

Comments

Recommendation 18

Ensure that a formal process is put in place to review declarations of interest and use them to complete the related parties note in the accounts. Officers should clearly document their judgements on whether matters are material or can be excluded from the note.

Comments

Appendix 6 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

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.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as 'an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical 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’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

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.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

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.

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

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