

22 September 2011

Cllr C Fitzsimmons  
Chair Audit & Corporate Governance Committee  
Warrington Borough Council  
Town Hall  
Sankey Street  
Warrington  
WA1 1UH

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Dear Cllr Fitzsimmons

## **Warrington Borough Council Annual Governance Report 2010/11 - Update**

This letter updates you on the outstanding issues set out in my AGR on 15 September 2011. As you will see there is still some work to complete before I can share my proposed audit opinion with you. At this stage I expect to be able to do this in time to meet the 30 September deadline. I will write to you again before concluding my audit.

The table below lists the areas reported as incomplete in my AGR. In each area I summarise the progress made to date and set out those matters that I wish to bring to the attention of the Audit and Corporate Governance Committee.

<b>Issue set out in AGR</b>	<b>Updated position</b>
Accounting for the reclassified lease for Golden Square shopping centre (and other similar leases).	<p>The Chief Finance Officer wrote to me on 16 September setting out his response to this issue. He has agreed to recognise a capital receipt for these leases and that the receipt should be accounted for as a deferred capital receipt. The accounts have been amended to recognise the deferred capital receipt.</p> <p>This issue was also reported to you last year. The Chief Finance Officer has confirmed in his letter of representation that this matter is now closed and will not re-emerge in future years.</p>
The determination of the minimum revenue provision (MRP) following the reclassification of the above leases.	<p>My discussions with the Chief Finance Officer are ongoing. Whilst this matter does not affect my opinion on the Council's accounts I am yet to determine whether it will impact upon my vfm conclusion.</p>
The potential impact on my audit opinion of unexplained differences between the capital assets module in	<p>The Chief Finance Officer has provided some additional working papers. The opening balances</p>

SAP and Local Government accounting requirements.	<p>on the revaluation reserve and capital adjustment account are incorrect by £3.2m and impairments charged to the CIES are overstated by £4.97m. The Council has agreed to amend the accounts for these errors. After accounting for these errors there is a £751,000 unexplained difference between the revaluation reserve and note 12.</p> <p>I am now satisfied that the unexplained differences are not material and therefore, do not limit the scope of my opinion.</p>
The basis of the valuation of the housing PFI projects	I am waiting for expert advice on the basis of the valuation of these projects. I expect to get that advice on Monday 26 September. I will then discuss the implications with the Chief Finance Officer.
Work undertaken on our behalf by internal audit on accounts receivable.	<p>Complete.</p> <p>There are no matters arising from this work that I wish to bring to the Committee's attention.</p>
Complete my work on capital and revenue grants;	My audit work is ongoing.
Complete my work on cut-off testing of year end transactions;	My audit work is ongoing.
Complete my review of the cash flow statement	My audit work is ongoing.
Agree the final changes to the financial statements with officers	I will agree the final changes before I give my audit opinion.
Complete my final review procedures	Ongoing
Complete my work on the Council's whole of government accounts return.	I expect to complete this work in time to meet the 30 September deadline.

As part of my final review I have identified some further changes that I now wish to bring to your attention.

- I have raised some queries regarding the figures disclosed in note 15, financial instruments and note 45 termination benefits. The finance team are considering these matters. They primarily relate to disclosures and will not affect the Council's reported financial position.

- My testing identified that an adult social care pre-payment had been overstated by £1,000. I have extrapolated the error over the whole population from which the pre-payment was sampled. I estimate that 2010/11 pre-payments in the Balance Sheet are overstated by £170,000 and that income in the CIES is understated by the same amount. The Chief Finance Officer has not adjusted the accounts as the value of the originating error is trivial and I cannot be certain of the value of the overall error.
- My review of asset revaluation movements disclosed in note 12 identified that the movements relating to PFI assets were incorrectly stated. The identified errors have been corrected.
- I have identified two additional unexplained differences in note 20 following amendment of the draft financial statements. The reported value of assets classified as held for sale during the year is £225,000 less than supporting records. The value of impairments is £362 less than supporting records.

I have identified some material amendments to the figures contained in some of the notes:

- Note 47 Defined benefit pension schemes – the figure disclosed for expected contributions to the Local Government Pension Scheme in the year to 31<sup>st</sup> March 2012 was incorrectly disclosed as £81.6m. The correct figure is £16m;
- Note 51 LSVT – the estimated value of improvement works to the transferred housing stock is incorrectly disclosed as £372m. The correct figure is £276m. This correction impacts on the estimated value of recoverable VAT and the Council's share of that figure (see below).
- Note 51 LSVT – the estimated value of VAT recoverable by Golden Gates Housing Trust is incorrectly disclosed as £48m. It should be £55m.
- Note 51 LSVT – the Council's share of the recoverable VAT is incorrectly disclosed as £25m. It should be £28m.

In summary there are now fifteen material adjustments to the financial statements. The accounts have also been amended for twenty eight other, less significant matters. There are four unexplained differences and a total of thirteen unadjusted differences in the accounts. Appendix 1 sets out those areas where I have agreed further amendments to the financial statements. Appendix 2 sets out additional unadjusted items and unexplained differences.

The draft letter of representation is attached, appendix 3. The Chief Finance Officer will provide an updated letter just before I give my audit opinion. This is to ensure that it properly reflects any matters that arise between now and the date of opinion.

I will write to you again next week to update you on my progress and to share my proposed audit opinion and value for money conclusion with you. At that stage we will need to consider whether a further meeting is necessary to enable me to discharge my responsibilities to communicate the results of my audit to the Council before I give my audit opinion.

I will provide a further update to the Committee as planned on 22 September. In the meantime if you wish to discuss any of the matters set out in this letter please contact me.

Yours sincerely

Judith Tench  
*District Auditor*

**cc** Cllrs P Bretherton, J Joyce, S Parish, F Rashid, K Simcock, B Axcell, B Barr, I Marks, P Walker, P Kennedy  
Lynton Green, Chief Finance Officer

# Appendix 1 – Further amendments to the financial statements

I identified the following misstatements in addition to those reported in appendix 3 of my Annual Governance Report.

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Removal of PPA in draft financial statements	PPA to remove deferred capital receipt of £32.1m in relation to re-classified finance leases reversed			32,372 capital adjustment account	255 capital receipts reserve 32,117 Deferred capital receipts reserve
Treatment of asset impairments by SAP	Asset impairments incorrectly treated by SAP leading to overstatement of the charge to expenditure by £4.97m. Opening balances on the revaluation reserve and capital adjustment account misstated by £3.2m.		4,966 across HRA exceptional costs and Central Services	3,219 capital adjustment account	3,219 revaluation reserve
Disclosure of PFI asset movements in note 12	Movements in PFI assets during the year incorrectly disclosed in note 12			217 revaluation increases 2,459 disposals	98 depreciation 2,577 impairments
Estimated contributions to the Local Government Pension Scheme in the year to 31 <sup>st</sup> March 2012	Incorrect figure picked up from the actuarial report. Should be £16m not £81.6m				£65,600 Note 47
Note 51 – LSVT VAT shelter arrangements	Value of improvement works incorrectly stated as £372m not £276m. Estimated value of VAT			7,000 note 51 VAT recoverable	96,000 note 51 improve

		Comprehensive income and expenditure statement		Balance sheet	
	recoverable by Golden Gates Housing incorrectly disclosed as £48m not £55m. Councils share of recoverable VAT incorrectly disclosed as £25m not £28m.			3,000	nt works
				note 51	
				Council share of VAT recoverable	
Movement in Reserves Statement disclosure issue	Incorrect figures disclosed for 'Surplus or deficit on provision of services' as split between HRA and General fund	769 MiRS – General Fund	769 MiRS – HRA		
Financial Instruments – Inclusion of shareholding in Warrington Wolves	The shareholding in Warrington Wolves was incorrectly omitted from the financial assets disclosure in note 15. This should be included as an unquoted equity investment at cost			150 Note 15	

# Appendix 2 – Additional unadjusted differences in the financial statements

I identified the following misstatements in addition to those reported in appendix 4 of my Annual Governance Report.

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted difference	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Overstatement of PPE additions	PPE additions overstated by £0.323m. An amendment to correct an accrual has been posted to 2011/12 instead of 2010/11. There is a corresponding overstatement of creditors.			323 Short term creditors	323 PPE
Overstatement of pre-payments	Testing identified an error in the formula used to calculate a pre-payment. The identified error of £1,000 has resulted in an extrapolated error of £170,000	170 Adult Social Care			170 Short term debtors
Revaluation reserve and movements disclosed in note 12	Unexplained difference between the revaluation movements disclosed in the revaluation reserve and note 12. This difference updates the £0.758m reported in appendix 4 of the AGR and removes the £3.855m also reported in appendix 4			751 between note 12 and note 24	751 between note 12 and note 24
Assets held for sale – Note 20	Unexplained difference between the value of assets transferred from PPE and the entry in this note			225 Note 20	
Assets held for sale – Note 20	Unexplained difference between the figure disclosed for impairment losses and the expected figure				362 Note 20

# Appendix 3 – Letter of Representation

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

Diana Terris  
Chief Executive

Lynton Green  
Chief Finance Officer

New Town House  
Buttermarket Street  
Warrington  
WA1 2NH

LG/JH

22 September 2011

Dear Judith

## **Warrington Borough Council - Audit for the year ended 31 March 2011**

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 2011. 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 Code of Practice for 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 and it has been agreed not to correct the Financial Statements due to their low value and the fact that they would make no material difference to any reader of the accounts.

### Supporting records

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

### Internal control

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

During the year a significant internal control weakness regarding access to the SAP ledger was identified. This weakness has been noted in the Annual Governance Statement and action has been taken to address the associated risk.

I can confirm that the control weakness 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 entity'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 entity, where relevant to the accounting estimates and disclosures; and
- the completeness and appropriateness under the financial reporting framework.

#### Treatment of Golden Square and other re-classified finance leases

The draft Financial Statements submitted for audit included a prior period adjustment to remove £32 million of deferred capital receipts from the Balance Sheet. These had been recognised as an audit adjustment following the review of the reclassification of the Golden Square shopping centre and other assets to finance leases in 2009/10.

The prior period adjustment has been removed from the revised Financial Statements following discussion with the external auditors and advice from the Council's independent advisors.

I can confirm that this issue is now closed and the agreed accounting treatment will not be challenged in future years.

#### Minimum Revenue Provision

I am moving closer to an agreed position with the Audit Commission over this issue. However, there are still some issues to be resolved on the calculation and associated risks of my treatment for MRP. I will report in full detail to the meeting of the Audit and Corporate Governance Committee at the next meeting (in October).



### 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 unexplained differences are summarised in the attached schedule.

### 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 framework.

### Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Warrington Borough Council

I confirm that the this letter has been discussed and agreed by the Council on 22 September 2011

Signed

Name: Lynton Green CPFA

Position: Chief Finance Officer

Date:

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