

28 September 2011

Cllr C Fitzsimmons
Chair Audit & Corporate Governance Committee
Warrington Borough Council
Town Hall
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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 letter to you of 22 September and in my AGR on 15 September 2011.

Value for money conclusion

I have now completed my review of the Council's determination of its minimum revenue provision (MRP).

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

However the Council's arrangements for calculating MRP mean that it may not have set aside sufficient funds to meet its existing debt repayment obligations.

I attach my updated findings and conclusions in respect of the Council's arrangements for securing financial resilience (appendix 1). As you will see I have reservations about the Council's decision to rely on the repayment of principal from the Golden Square lease to meet future debt repayment obligations. In my view this places the Council at risk of having to rely on restructuring its debt repayments or meeting debt repayments from other means.

The Chief Finance Officer has used £6m of this MRP saving to establish the new MTFP reserve over the last years. I recognise that this goes some way towards mitigating the risk that the Council will need to repay debt by other means until it receives the principal repayments from the Golden Square lease. However that reserve is already being used for other purposes. I conclude that the Council may not have:

- set aside sufficient funds to meet its existing debt repayment obligations; and
- adequately engaged Members in understanding the long-term implications of the change of policy.

I make three recommendations. The Council needs to:

- R19** review the level of funds set aside to meet future debt repayments against its profile of those repayments;

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- R20** satisfy itself that it has set a prudent level of MRP; and
- R21** ensure that members have the opportunity to understand and consider the long term financial implications of the revised MRP policy for 2011/12.

I have already discussed these recommendations with officers. The Chief Finance Officer plans to take a detailed report to the next Audit and Governance Committee in November 2011.

Audit opinion on the financial statements

As you will see my audit is now substantially complete and I expect to give an unqualified opinion in time to meet the 30 September deadline. The draft audit opinion is included at appendix 4.

The table below lists the areas reported as incomplete in my letter of 22 September. In each area I summarise the outcome of my work and set out those matters that I wish to bring to the attention of the Committee.

Issue relating to my opinion on the Council's accounts	Updated position
The basis of the valuation of the housing PFI projects	Complete. The Council has adjusted the accounts to value the properties on the following basis – existing use value, social housing. The tenants in these properties have assured tenancy status. At the end of the term of the PFI projects it is unlikely that the properties could be sold at the open market value with vacant possession. As a result of this change the value of property plant and equipment on the Council's balance sheet falls by £10.3m
Complete my work on capital and revenue grants;	Complete. There are no matters arising from this work that I wish to bring to the Committee's attention.
Complete my work on cut-off testing of year end transactions;	Complete. There are no matters arising from this work that I wish to bring to the Committee's attention.
Complete my review of the cash flow statement	Complete. I found three material errors in the cash flow and supporting notes. These errors have no impact on the Council's financial position.
Agree the final changes to the financial statements with officers	I will agree the final changes before I give my audit opinion. I expect to receive the final version of the statements on the afternoon of 28 September.
Complete my final review procedures	Ongoing
Complete my work on the Council's	I expect to complete this work in time to meet the 30 September deadline. However there is a risk

whole of government accounts return. that I am unable to so as I have not yet received the final statements.

In summary there are now twenty one material adjustments to the financial statements. The accounts have also been amended for forty two other, less significant matters. There are four unexplained differences and a total of twelve unadjusted differences in the accounts. Appendix 2 sets out all of the agreed amendments to the financial statements. Appendix 3 sets out all of the unadjusted items and unexplained differences.

There has been a change to the draft letter of representation shared with the Committee on 22 September and the Chief Finance Officer has updated the list of unadjusted errors. The final letter is attached, appendix 5.

I confirm that there are no other matters that I wish to draw to the Committee's attention.

Before I give my opinion please can you confirm in writing, on behalf of the Committee, that you have:

- considered the matters raised in this letter - together with my letter of 22 September and my Annual Governance Report presented to the Committee on 22 September - before approving the financial statements.
- taken note of the final list of adjustments to the financial statements, (attached)
- approved the letter of representation on behalf of the Council before I issue my opinion and VFM conclusion.

In addition the Committee needs to agree its response to the recommendations I have made. I suggest that this is done via a separate report from officers to the November meeting.

Please let me know if you wish to discuss any of these matters before I give my opinion on 30 September 2011.

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 – Value for money conclusion

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.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission.

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

However the Council's arrangements for calculating its minimum revenue provision (MRP) mean that it may not have set aside sufficient funds to meet its existing debt repayment obligations. I return to this issue below.

Criteria	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council has adequate overall arrangements for financial governance, planning and control.</p> <p>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:</p> <ul style="list-style-type: none">• 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. This reserve was established in during 2009/10. It includes £6m that would otherwise be set aside from revenue to meet future debt repayments (MRP).• Strategic reserve - £4.76m. This money is set aside to cover emergencies such as unforeseen financial liabilities or natural disasters. <p>The Council set a challenging budget for 2010/11 that included a savings target of £14.4m. Against this background the Council transferred £1.028m from reserves to report a break even position at the year end. During the year the Council took appropriate action to manage the impact of the local government settlement and took corrective action when required.</p> <p>Minimum revenue provision</p> <p>MRP is the charge the Council makes to its General Fund each year to contribute toward the repayment of debt. When setting their MRP policy councils are required to have regard to guidance published by the Department for Communities and Local Government (DCLG). The overriding principle of the guidance is that councils must set a <i>prudent</i> level of MRP. It also requires councils to set their MRP policy before the start of each financial year. This is usually done as part of the annual treasury management strategy.</p>

In January 2008 the Council changed its MRP policy following updated guidance from DCLG. The main change relates to long term debtors arising from loans or other types of capital expenditure that will be repaid under separate arrangements. The Council no longer includes these debts in its calculation of MRP.

As a result of this change in policy the total MRP charged to revenue by 31 March 2011 has fallen by £7m. I recognise that this has helped the Council to manage budget pressures at a difficult time. However there is now a risk that the amount set aside falls short of what might reasonably be considered to be a prudent provision.

The main saving achieved by this change in policy relates to the 200 year finance lease for Golden Square Shopping Centre. The Council plans to finance future debt repayments from the principal repayments it receives from the lease holder. This was not set out for members until June 2011 when the Chief Finance Officer presented a paper to the Audit and Governance Committee setting out the change in policy in more detail. The Chief Finance Officer has told me that he shared more detailed information during chair's briefings, discussions with the finance portfolio holder and the final accounts training session for members in May 2011.

Any decision to set aside capital resources - as an alternative to making a provision for repayment of debt by way of MRP - needs to take into account the timing of the associated cash-flows. This should include an assessment of the allocation of repayments between interest and principal over the term of the lease and its debt repayment schedule. In the Golden Square lease principal repayments are insignificant until the final fifty years of the lease. I have seen no evidence that the Council has done such an assessment or considered the need to reschedule its debt repayments as a result of its revised policy. In addition the long term financial implications of the change were not clearly set out for members in the 2009/10 or 2010/11 treasury management strategies or since.

It is now possible that the Council's debt repayment schedule is either not suitable for its specific circumstances or feasible in respect of its ability to repay.

The decision to rely on the repayment of principal from the Golden Square lease places the Council at risk of having to rely on restructuring its debt repayments or meeting debt repayments from other means. I acknowledge above that the Council has used £6m of its MRP saving to establish its MTFP reserve. However that reserve is already being used for other purposes. In my view the Council may not have:

- set aside sufficient funds to meet its existing debt repayment obligations; and
- adequately engaged Members in understanding the long-term implications of the change of policy.

I make the following recommendations. The Council needs to:

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- R19** review the level of funds set aside to meet future debt repayments against its profile of those repayments;
 - R20** satisfy itself that it has set a *prudent* level of MRP; and
 - R21** ensure that members have the opportunity to understand and consider the long term financial implications of the revised MRP policy for 2011/12.

Financial Planning

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.

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 overspend 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.

During 2010/11 the Council has addressed many of the issues relating to internal control and risk management that led to the qualification of the vfm conclusion in 2009/10. In particular:

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- the appointment of a new permanent head of internal audit;
 - the internal audit plan was reviewed and now forms part of a three year strategic plan supported by an annual risk based plan;
 - the Audit and Governance Committee improved its effectiveness following a formal self-assessment. Recent changes in membership should help to further improve the challenge, by members, of audit and governance processes.
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I will follow up the issues relating to the Council's treasury management strategy as part of my 2011/12 audit work.

Appendix 2 – Full list of amendments to the 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.

Adjusted misstatement	Nature of required adjustment	Comprehensive income and expenditure statement		Balance sheet	
		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	3,200	3,200	
		2009/10 reversed across C&E cost of service	2010/11 across C&E cost of service	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	1,501		
		CI&E financing income	HRA sums directed by SOS		
		1,501	1,501		
		HRA interest payable	CI&E exceptional		
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	255
				capital adjustment account	capital receipts reserve
					32,117
					deferred capital receipts reserve
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	53,858		
		non distributed costs	exceptional costs		

		Comprehensive income and expenditure statement		Balance sheet	
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	314,292		
		exceptional costs	LA Housing		
		60,512	60,512		
		LA Housing	exceptional costs		
Balance Sheet – PPE	PFI assets valued on incorrect basis and overstated by £10m	1,946		8,395	10,341
		CIES		revaluation reserve	PPE
				1,946	1,946
				CAA	CAA
Balance sheet provisions/creditors	Accrual for short term staff absences in provisions to be moved to accruals			8,793	8,793
				Provisions	Accruals
LSVT housing stock revaluation adjustments in note 12 (PPE) and note 20 (assets held for sale).	<p>Note 12 adjustments</p> <p>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.</p> <p>Note 20 Adjustments</p> <p>Should transfer in at revalued amount and be written down to nil (as disposal costs matched the sales proceeds of £3.9m)</p>			235,395	3,907
				reclass and transfer	reclass as held for sale
				231,488	
				Impairment losses	
				235,396	231,626
				Assets declassified as held for sale	Transfers
					3,907
					impairment losses
Balance sheet creditors	Grants in advance to be included as a separate line in the balance sheet			7,529	7,529
				long term creditors	grant receipts in advance
CI&E taxation and non-specific grant income	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	6,759	
Balance sheet long term creditors			grant income	long term creditors	
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	4,966	4,966	3,219	3,219
		surplus/deficit on revaluation of non current assets	across HRA exceptional costs and Central Services	capital adjustment account	revaluation reserve
				4,971	4,966
				revaluation	capital adjustment

		Comprehensive income and expenditure statement		Balance sheet	
	adjustment account misstated by £3.2m.			reserve 4,966	account 4,966
				note 12 – impairment loss to SDPS	note 12 – revaluation reserve loss
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		
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		
Cash Flow Statement	Entry for ‘Adjustments to the net surplus/deficit on the provision of services for non-cash movements’ understated in draft statements				5,147 cash flow statement
Cash Flow Statement	Entry for ‘Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities’ understated in draft statements			32,360 cash flow statement	
Cash Flow Statement	Entry for ‘Investing activities’ overstated				21,129 cash flow statement
Cash Flow statement	Entry for ‘Financing activities’ understated			4,155 cash flow statement	
Note 25 to the Cash Flow statement	Entry for ‘Interest received’ understated				3,421 note 25

		Comprehensive income and expenditure statement	Balance sheet
Note 25 to the Cash Flow statement	Entry for 'Interest paid' understated		5,061 note 25
Note 26 to the Cash Flow statement	Entry for 'Purchase of property plant and equipment' understated		538 note 26
Note 26 to the Cash Flow statement	Entry for 'Proceeds from the sale of property plant and equipment' overstated		110 note 26
Note 26 to the Cash Flow statement	Entry for 'Proceeds of short term and long term investments' mis-stated		20,120 note 26
Note 26 to the Cash Flow statement	Entry for 'Other receipts from investing activities' overstated		1,690 note 26
Note 27 to the Cash Flow statement	Entry for 'Cash receipts of short term and long term borrowing' overstated		360 note 27
Note 27 to the Cash Flow statement	Entry for 'Other receipts from financing activities' overstated		2,970 note 27
Note 27 to the Cash Flow statement	Entry for 'Repayment of short term and long term borrowing' understated		828 note 27
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	Entry in draft accounts incorrect – should be nil.		76,959 note 7

		Comprehensive income and expenditure statement		Balance sheet	
and equipment HRA					
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	
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 7	

		Comprehensive income and expenditure statement		Balance sheet	
Note 12 VPE additions	£637k additions incorrectly shown as revaluation movements			637 note 12	637 note 12
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
Note 13 Investment properties	Investment property income had not been included in note 13	3,483 operating expenses	3,013 income		
Note 15 Financial Instruments	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	
Note 15 Financial Instruments	The income expense figure disclosed in table 2 of this note is not consistent with the interest charges to CIES	2,802 note 15			
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
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	Capital grants and contributions were inconsistent between the two notes and both required correction			573 note 24	672 note 7

		Comprehensive income and expenditure statement		Balance sheet	
under Regulations					
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 note 38	
Note 38 Grant income credited to services	Note 38 incorrectly includes £2.712m of housing and council tax benefit overpayments that are not grant income and should not be included in this note.			2,712 note 38	
Note 38 Grant income credited to services	Note 38 incorrectly includes £1.930m of capital grant income			1,930 note 38	
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 and CIES			2,826 note 43	
Note 43 Impairments	Impairment for land and buildings not consistent with note 12 and CIES			364 note 43	
Note 43 impairments	Impairment of Assets Held For Sale incorrectly omitted from the note			3,545 note 43	
Note 47 Estimated contributions to the Local Government Pension Scheme in the year to 31 st March 2012	Incorrect figure picked up from the actuarial report. Should be £16m not £81.6m				£65,600 note 47
Note 50 Nature and extent of risks arising from financial instruments	Incorrect figures included for trade and other debtors in the credit risk table			2,730 note 50 – trade debtors	19,485 note 50 – other debtors
Note 51 LSVT	Value of improvement			7,000	96,000

		Comprehensive income and expenditure statement	Balance sheet	
VAT shelter arrangements	works incorrectly stated as £372m not £276m. Estimated value of VAT recoverable by Golden Gates Housing incorrectly disclosed as £48m not £55m. Councils share of recoverable VAT incorrectly disclosed as £25m not £28m.		note 51 VAT recoverable 3,000	note 51 improvement works
Note 51 LSVT	Set up costs of LSVT not consistent with charge to CIES		note 51 Council share of VAT recoverable 444	

Appendix 3 – Full list of 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.

Unadjusted difference	Nature of required adjustment	Comprehensive income and expenditure statement		Balance sheet	
		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 CIES	243 accrual	
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
Balance Sheet - PPE	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
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	
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 - Earmarked reserves	Trust funds belonging to third parties incorrectly included within the Council's own reserves			116 reserves	116 cash
HRA – Interest payable and similar charges	Overstated due to incorrect calculation in the item 8 determination		288 CIES		288 hra
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 short term creditors	6,026 long term creditors
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	
Note 20 Assets held for sale	Two unexplained differences identified from review of this note difference between the value of assets transferred from PPE and the entry in this note - £225,000 difference between the			225 note 20	362 note 20

**Comprehensive income
and expenditure
statement**

Balance sheet

expected impairment figure
and that shown - £362,000

Appendix 4 – Independent auditor’s report to the members of Warrington Borough council

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF WARRINGTON BOROUGH COUNCIL

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements of Warrington Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting 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, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 Finance Officer is responsible for the preparation of the Authority and Group’s Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting 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 accounting statements sufficient to give reasonable assurance that the accounting 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 Authority and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

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

Opinion on other matters

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

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion, it 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

Authority's responsibilities

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.

Auditor's responsibilities

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 2010, 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 2011.

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 2010, 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 ending 31 March 2011.

Certificate

I certify that I have completed the audit of the Authority and Group accounts of Warrington Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Judith Tench

Officer of the Audit Commission

September 2011

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

Appendix 5 – Letter of Representation

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

29 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.

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:

SCHEDULE OF UNAMENDED ERRORS/UNCERTAINTIES

Item Item	Item of account	Draft accounts value £'000	Description of error or uncertainty	Quantified error /uncertainty		Is error actual (A) or extrapolated (E)
				Debit £000	Credit £'000	
1	Balance Sheet -PPE	463,769	Salary costs of an Officer have been capitalised but Council cannot evidence that it is appropriate to capitalise 100% of costs. £98k of costs capitalised therefore this is the maximum error		98	A
	CIES - Cost of Services Gross Expenditure	773,888	As per above - maybe understated as salary costs capitalised would otherwise be charged to revenue	98		
	Balance Sheet - PPE	463,769	Incorrectly capitalised £80k of revenue expenditure		80	
	CIES - Gross expenditure	773,888	Correction of above error	80		
2	Balance Sheet - PPE	463,769	Additions overstated as included overstated GRNI accrual where error has been corrected in the wrong year.	323	323	A
3	Balance Sheet - PPE	463,769	Incorrectly includes £225k re Cantilever Gardens. This is not an asset of the Council and should have been treated as REFCUS		225	A
	CIES - Gross expenditure	773,888	Correction of above error	225		
4	Balance Sheet - assets held for sale	465	Overstated as includes an asset sold during 2008/09		115	A

				Quantified error /uncertainty		
	09/10 comparative					
5	Balance Sheet - Short term creditors	46,329	Testing identified that an internal creditor of £35k had been incorrectly included. Extrapolated error is £694k	694		E
6	Balance Sheet - Short term creditors	46,329	Overstated as the required adjustment relating to pooled budgets have not been processed.	311		A
	Balance Sheet - Short term debtors	46,549	Overstated as the required adjustment relating to pooled budgets have not been processed.		149	
	Balance Sheet - Cash	31,203	Overstated as the required adjustment relating to pooled budgets have not been processed.		162	
7	Balance Sheet - Short term debtors	46,549	Overstated by estimated £170k due to incorrect calculation of direct payment pre-payments	170		A
	CIES - Gross expenditure	773,888	Understated due to error above		170	
8	Balance Sheet - Short term creditors	46,329	Includes £6,026k re Chapelford that would be more appropriately classed as a long term creditor		6,026	A
	Balance Sheet - Long term creditors	19,765	Correction of above error	6,026		
9	Balance Sheet - Short term creditors	46,329	Overstated as invoice incorrectly paid as a non purchase order invoice when already	243		A

				Quantified error /uncertainty		
			accrued as a purchase order invoice			
	CIES - COS gross expenditure	773,888	Correction of above error		243	
10	Balance Sheet - Earmarked reserves	19,770	Incorrectly includes £116k of third party Trust Funds	116		A
	Balance Sheet - Cash	31,203	Incorrectly includes Trust funds as above		116	
11	HRA – Interest payable and similar charges	1,301	Overstated due to incorrect calculation in the item 8 determination		288	A
	CIES – HRA gross expenditure	331,376	Overstated due to above error		288	
12	Collection fund - Income collectible from business ratepayers	91,608	Understated due to incorrect treatment of bad debts and write offs. Should be £91,224k	384		A

UNEXPLAINED ERRORS/UNCERTAINTIES

Item	Item of account	Draft accounts value £'000	Description of error or uncertainty	Quantified error /uncertainty	
				Debit £000	Credit £'000
1	Balance Sheet - Revaluation reserve	75,428	Revaluation movement shown in the reserve is not consistent with that derived from note 12. Difference is unexplained.		758
2	Balance Sheet - CAA	315,585	Entry for 'Charges for depreciation and impairment of non current assets' is not consistent with the disclosures in note 12 and note 20. Difference is unexplained.	591	
3	Note 20 - Assets held for sale - Transfers from other non current assets	3,682	Revised figure should be £3,907k but council have changed to £3,682k. There is therefore an unexplained difference of £225k		225
4	Note 20 - Assets held for sale - Impairment losses	3,545	Revised figure should be £3,907k but Council have changes to £3,545k. There is an unexplained difference of £362k	362	