

Annual Audit Letter

Warrington Borough Council

Audit 2008/09

December 2009



Contents

Key messages	3
Closing remarks	9

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

Key messages

This report summarises the findings from my 2009 audit for Warrington Borough Council. It includes key messages arising from the audit of your financial statements and your arrangements to secure value for money in your use of resources.

Table 1 Summary of audit work 2009

The table below shows the high level results of our audit work for 2008/09.

Achievements	
Unqualified audit opinion given 30 September 2009	Yes
Arrangements in place to secure value for money	Yes
Short falls	
Qualified VFM conclusion	No

Financial statements and reporting 2009

- 1 On 30 September 2009 I gave an unqualified opinion on the Council's financial statements. That means, I was satisfied the audited financial statements fairly presented the financial position of the Council as at 31 March 2009. However, this was only achieved after undertaking considerable amounts of additional work.
- 2 I reported my concerns regarding the adequacy of the Council's financial reporting arrangements to the Governance Committee in September 2009, in my Annual Governance report. See link: <http://212.248.237.112/CmisWebPublic/Meeting.aspx?meetingID=3165>. The financial statements submitted for audit, contained a number of significant errors. The accounts were not supported by adequate working papers and audit trails.
- 3 I scored the Council's financial reporting arrangements as a one, which is, inadequate. The use of resources section covers this in greater detail.
- 4 I am pleased to report that, since September, the Council has reflected on the outcome of this year's audit and taken the following steps to address the underlying issues:
 - reorganised its finance function;
 - introduced a new asset register;
 - produced and agreed an action plan with senior officers; and
 - reviewed its capacity and technical capability to meet its financial reporting obligations.

Financial statements and reporting 2010

- 5 I will review progress against the implementation of the new plans, structures and systems throughout 2010 and report back to members any resultant improvements.

International Financial Reporting Standards (IFRS)

- 6 The annual financial statements of all councils are currently prepared using accounting policies based on UK Generally Accepted Accounting Practice (UKGAAP). In order to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice, local government accounts will be prepared using International Financial Reporting Standards (IFRS) adapted as necessary for the public sector.
- 7 The Council must take responsibility for establishing the appropriate accounting policies and systems that will enable them to prepare IFRS compliant financial statements.
- 8 As part of my 2008/09 audit I have completed an Audit Commission survey on the Council's progress in preparing for the implementation of the IFRS. The Council has made a good start in its preparations for IFRS. Officers have identified the key risk areas for Warrington, undertaken an initial analysis to assess the work required and are in the process of preparing detailed methodologies for the various work areas. However, officers recognise that, in keeping with many councils, considerable further work will be needed during 2009/10 to ensure required timeframes are met.
- 9 We are committed to working closely with the accountancy team to ensure as part of the 2009/10 audit we receive UKGAAP compliant accounts as well as restated IFRS figures.

Treasury management

- 10 As part of my 2008/09 audit, I completed an Audit Commission return on the Council's treasury management arrangements. The Council had no investments with Icelandic banks in 2008/09. On the advice of its Credit Rating Agencies, the Council withdrew the names of Icelandic banks from its list of potential investment areas. There were no key issues identified in my review. The Council plans to review its Treasury Management framework following updated Cipfa guidance and that specific treasury management training is planned for relevant Members.

Key messages

Use of resources 2009

11 The Council was assessed against the Audit Commission's criteria for the way it uses its resources during 2008/09. The assessment criteria and processes were different to those used in previous years and in many ways constituted a harder test. The Council was assessed against criteria that measured the way it:

- manages finances;
- governs the business; and
- manages resources.

12 Table 2 shows the four levels scoring system which remains in place. Levels two and three relate to 'getting the basics right' and 'performing well' respectively. Scores of level four are reserved for excellence and genuine cutting edge performances.

Table 2 **Levels of performance**

Level 1	Does not meet minimum requirements – performs poorly
Level 2	Meets minimum requirements – performs adequately
Level 3	Exceeds minimum requirements – performs well
Level 4	Significantly exceeds minimum requirements – performs excellently

Source: use of resources framework: overall approach and KLOE document

13 To achieve level 3 councils must have effective arrangements in place and be able to demonstrate that those arrangements are having their intended impact. Where appropriate, these arrangements must also show evidence of effective partnership working.

14 The Council achieved an overall score of 2 out of 4 for its use of resources, as shown in Table 3. This means that, the Council is achieving at least minimum standards and in some areas is performing well.

Table 3 **Use of resources theme scores 2009**

Use of resources theme	Score
Managing finances How effectively does the organisation manage its finances to deliver value for money?	2
Governing the business How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people?	2

Use of resources theme	Score
Managing resources How well does the organisation manage its natural resources, physical assets and people to meet current and future needs and deliver value for money?	2
Overall score	2

- 15** The Council has good financial planning arrangements in place and a clear understanding of its costs and performance. However, it must improve its arrangements for financial reporting which are inadequate.
- 16** The Council has secured improvements in the way it procures and commissions its services. It has an established framework in place for producing relevant and reliable data as well as good arrangements for IT security. It is the lack of compliance with these policies and procedures that prevents the Council scoring well in this theme.
- 17** The Council has made real progress in making better use of its natural resources, especially with regard to the management of its physical assets in supporting the delivery of its strategic priorities and service needs. The Council has demonstrated a genuine commitment to the Green agenda but as yet the benefits of this work are unclear.
- 18** I presented a detailed Use of Resources report to the governance committee 12 November. See:
<http://212.248.237.112/CmisWebPublic/Meeting.aspx?meetingID=3122>

Value for money (VFM) conclusion

- 19** I am also required to conclude whether the Council put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources against the criteria specified by the Audit Commission for 2008/09. This is known as the value for money (VFM) conclusion. I have concluded that with the exception of your arrangements for financial reporting your arrangements are adequate and we issued a qualified conclusion on the Council's value for money arrangements on 30 September 2009.

Use of resources and VFM conclusion 2010

- 20** My work on use of resources 2010 will include a review of the Council's arrangements for workforce planning.

Key messages

- 21** I have reported to the Council my concerns regarding its existing governance arrangements, through the annual governance report, the triennial review of internal audit and as an area for development within the 'governing the business' section of my use of resources report. These arrangements will form a key part of my use of resources review in 2010.

Comprehensive Area Assessment and organisational assessment

- 22** The Audit Commission introduced a new assessment regime during 2009, Comprehensive Area Assessment. This aims to review the performance of local partners in delivering better outcomes for local people. The assessment is designed to focus attention on areas that need attention in order to deliver additional and sustained improvement.
- 23** Our work in this area is being led by the local Comprehensive Area Assessment Lead (CAAL). The CAAL has shared findings with officers and details of this work are reported to the public through 'One Place', which went live 9 December 2009. <http://oneplace.direct.gov.uk/Pages/default.aspx>
- 24** Alongside the CAA report we have issued our organisational assessment which combines our judgements on your use of resources and managing performance. Any issues arising will be discussed with you and planned into future years audit and assessment activity.

Audit fees

- 25** The Audit Commission requires audit fees to be in line with the scale fees set out in its work programme. The audit fee for Warrington was originally set at - 25 per cent below scale fee, which given the difficulties at the audit, was not sustainable.

I have agreed additional fees with officers see table 4 below.

Table 4 Audit fees

	Planned 2008/09	Actual 2008/09
	£	£
Financial statements and governance work	168,339	239,144
Value for money work and use of resources	66,437	66, 437
Whole of government accounts	2,829	2,829
Audit fee	237,605	308,410
Inspection (net of grant)	22,395	22,395

- 26** The revised fee for Warrington Borough Council is 5 per cent above scale. There will be scope to reduce this fee in the future should the Council's plans for improved financial statements materialise. The audits of grant claims are charged on a daily basis. I estimate the fee for grants work in 2008/09 will be £60,000. I will be issuing a detailed grants report to the Council in January 2010.
-

Actions

- 27** The Council must evaluate its capacity and capability to meet its financial reporting obligations.
- 28** It must put in place proper financial reporting systems which underpin good financial reporting.
- 29** The Council must improve its quality assurance arrangements for the financial statements.

Closing remarks

- 30** The economic downturn, public sector funding and the banking crisis are having a significant impact on public finances and the bodies that manage them. It is envisaged that there will be wide ranging pressure on the ability of public sector bodies to fund service delivery and capital programmes in the short to medium term. There are further challenges for policy priorities where patterns of demand for services may be increasing. In addition the Council continues to implement its own review programme of service delivery. These changes and the Council's response will be a key focus of my attention for future audits.
- 31** This letter has been discussed and agreed with the Assistant Chief Executive. I will present this letter at the Governance Committee on 14 January 2010 and a copy of this letter should be provided to all Members.
- 32** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year as shown in table 5. In addition to our traditional reports, we delivered a tailored financial reporting workshop to officers in November 2009. The workshop was well received by officers and we hope it will contribute to the Council's continued progress in 2010.

Table 5

Report	Date issued
Audit and Inspection Plan 2008/9	June 2008
Supplementary opinion audit letter	July 2009
Annual Governance report	September 2009
Opinion on financial statements	September 2009
Value for money conclusion	September 2009
Triennial Review of Internal Audit	September 2009
Use of Resources report	November 2009
Annual Audit Letter	December 2009
Review of 2008/09 Grant Claims	January 2010 (planned)
Financial Reporting workshop	November 2009

Independence

- 33** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.
- 34** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Judith Tench
District Auditor
December 2009

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, audio, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2009

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk
