

Annual governance report

St Helens Council

Audit 2010/11



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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

	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

I intend to issue an unqualified opinion on the Council's annual accounts for 2010/11. A draft of my opinion is at Appendix 3. The draft accounts and associated working papers were of a good standard. The application of International Financial Reporting standards (IFRS), for the first time, was addressed effectively.

Once again, the Council's finance team did an excellent job in preparing good quality financial statements. The accounts were approved on 30 June and made available for audit on 6 July. On 19 July the Council provided electronic working papers covering both the accounts and whole of government accounts return, that were comprehensively linked to the financial statements and enabled easy drill down through the general ledger. There are 3 material adjustments to the financial statements. These have been amended and are now shown correctly. Further details are given in the Financial Statements section below.

A number of non-material changes and minor corrections have also been made.

Value for money

I intend to issue an unqualified conclusion stating the Council has adequate arrangements to secure value for money. A draft of my conclusion is included with my opinion in Appendix 3. The Council is financially resilient and is achieving significant cost reductions by improving efficiency and productivity. The Council has a track record of delivering significant savings.

With continuing good financial management the Council should achieve its medium term efficiencies target of £19 million between 2012 and 2015.

It has strong leadership and its robust business challenge process encourages change in how services are delivered. The Council's performance management arrangements are sound and show how performance against local priorities continues to improve.

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. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

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:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 1);
 - approve the letter of representation on behalf of the Council before I issue my opinion and VFM conclusion. I have included a draft of the letter in Appendix 2.
-

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

The financial statements continue to be prepared to a good standard.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements on 27 September 2011. My draft report is available separately. As at 14 September I still have to complete the following audit procedures:

- completion of a sample test of property, plant and equipment;
- confirmation of the basis of recognising investment properties; and,
- reviewing the amended accounts and agreeing the whole of government accounts return.

I will confirm completion of the above procedures at the Audit and Governance Committee meeting on 26 September and if any matters arise from this work I will report this to you verbally.

The Financial statements were ready for audit on 6 July. The Finance team continue to provide excellent support for my audit team during the audit.

Adjustments to the draft financial statements

The draft financial statements have been adjusted for 3 material items. All are now shown correctly.

- For 2010/11, pension liabilities were calculated using the consumer price index rather than the retail price index for the first time. The change reduced the value of pension liabilities by £34 million. This was included within Non-Distributable Costs in the Comprehensive Statement of Income and Expenditure, this category has been expanded to better disclose the gain separately from the re-current expenditure.
- The Council has recognised that the arrangements for operating one of its facilities are covered by accounting standards IAS16 Property Plant and Equipment and IFRIC 12 Service Concession Arrangements. The facility has been capitalised at a value of £9.1 million.
- The notes supporting the balance sheet did not include the comparative figures for all material balances at 1 April 2009. This is a specific requirement of the transitional rules set out in IAS1 and applies only to the first year of reporting under IFRS.

My testing of short-term creditors at the year-end identified two errors that were not material but which have been corrected in the financial statements.

- Within the analysis of creditors at note 38 there was a misclassification within the short-term creditors note of £4.34 million, overstating NHS creditors and understating sundry creditors.
- Within creditors there was a balance of £1million treated as accruals which were in fact provisions.

My testing of income disclosures identified a misclassification of £81,000 between categories of grant income within note 16.

My testing of other disclosures identified the omission of 8 relevant officers from the officers' remuneration disclosures in note 23. The officers were identified as transferring to the Hope Academy however the transfer was not completed until after the year-end.

I identified other, mainly minor adjustments to rounding within the notes that were needed. I have provided a list of all the adjustments, for information, at Appendix 1.

Financial statements

Audit risks

I identified two key risks:

- Transition to International financial reporting standards;
- Mingling of St Helens and MWDA funds.

The significant audit risks that I identified during my audit were reported to the Audit and Governance Committee previously. My risk assessment considers aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

Key audit risk

Findings

Transition to International financial reporting standards (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 prepared well for the implementation of IFRS. Appropriate procedures and controls were implemented to enable the transition to be achieved in a timely and effective way.

My detailed testing of the main financial statements for 2010/11 shows that they have been prepared in accordance with the code. I am satisfied that the statements have not been materially misstated because of the implementation of IFRS.

Mingling of St Helens and MWDA funds

The Council does not ring-fence or nominate specific bank accounts or investments for MWDA. The Council does have procedures for identifying MWDA's underlying share of cash and investments and has recognised this as a creditor on the balance sheet. I have tested MWDA transactions separately within the primary accounting systems and confirmed the accuracy of the processing of these transactions. There is no specific risk remaining following our audit.

Financial statements

Significant weaknesses in internal control

I have not identified any significant weaknesses in internal control.

Financial statements

Quality of your financial statements

The quality of the Council's accounts is very good.

The quality of the Council's financial statements is very good. I have asked for a number of changes to be made to the financial statements. These are mostly presentational. Overall, the arrangements for preparing and publishing the financial statements and supporting my audit with working papers and explanations are excellent.

Annual Governance Statement

The Authority's Annual Governance Statement meets CIPFA's requirements. The disclosures within it are consistent with the information we are aware of from our audit of the financial statements and other work.

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 is at Appendix 2.

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

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

The Council has a track record of delivering significant savings. With continuing good financial management the Council should achieve its medium term efficiencies target of £19m.

Internal controls are effective.

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 conclusions on each of the two areas specified in 2010/11 are below. 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.

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 good arrangements for financial governance, planning and control. It has done well to maintain a strong financial performance again this year - in the face of many challenges. Financial stability remains a key priority for the Council. Good levels of reserves have been maintained for a number of years. The general fund reserve was £13.9 million at 31 March 2011.</p> <p>The Audit and Governance Committee is an important part of the Council's arrangements for ensuring good governance and financial control and there is an effective structure of Overview and Scrutiny Panels.</p> <p>The Council set a challenging budget for 2010/11. Following the Public Spending Review in June 2010, the Council revised its budget and increased its 2010/11 efficiencies target by £6m. Against this the Council has reported a net under-spend of £9.9 million.</p> <p>The Local Government Revenue Support Grant Settlement announced in December 2010, resulted in an overall loss of £28m of grant for 2011/12, which was the 4th greatest loss in the Country. The Councils response has been to begin a series of zero based budget reviews to identify ways to re-configure services and to identify savings. A balanced budget has been achieved.</p> <p>The Council has a budget strategy for 2012 to 2015 that sets out how the Council will manage resources over the medium term. The strategy identifies the key factors that will impact on its budget, for example:</p>

The Council has strong leadership and its robust business challenge process encourages changes in how services are delivered.

- proposed changes to revenue support grant arrangements;
- the localisation of business rates;
- proposed welfare reforms; and
- the Health Care Reform Bill.

The Council has quantified potential budget pressures for each year to 2014/15 and identified cumulative efficiency targets of £19 million. The Council has already identified savings required for 2012/13 and is now focused on the future years.

Internal Control remains effective.

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

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 continued to deliver economic, efficient and effective services through out 2010/11. Evidence for this has come from a variety of sources.

The zero based budget reviews were conducted by members and officers and co-ordinated through a steering group of members and chief officers who provided challenge and support. Members were also engaged with the process through Overview and Scrutiny Arrangements.

During the year the Council received 3 OFSTED reports, Inspection report on services as an adoption agency, the annual assessment of children's services and the report of an unannounced inspection of contact and referral services. All 3 had consistent messages of strong performance, full implementation of previous recommendations. The key Stage SATs results for this year also showed St Helens achieved better than average results across all headings.

During the year the Council received its Annual Performance Assessment report from the care Quality Commission which concluded that St Helens performance was "Excellent".

I have reviewed the Council's response to several national reports, for example the Audit Commission's report "The efficiency Challenge, managing administration costs in revenues and benefits" and the National Audit Office report "Tackling fraud and error". I found that St Helens' costs are below average and remaining stable in the face of increasing caseload. This is in part due to the changing way the Council uses the Contact Centre and is reflected in



the fact that case load increase up to the end of the year was managed without additional recruitment. The accuracy of benefits processing has been improving steadily over 2 years and at the time of my review processing was over 90% accurate first time. The Council has been pro-active in addressing the risk of fraud in benefits claims as demonstrated by the use of credit agency data to prevent and detect a variety of frauds.

I have reviewed the Council's performance monitoring reports. These show that the Council is performing at or above target for most of its key performance indicators and with most indicators showing improvement against previous years. The performance monitoring arrangements have remained unchanged with key indicators focused on local priorities.

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 – Amendments to the draft financial statements

Management have adjusted the financial statements for the matters I identified during my audit. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjusted misstatement	Nature and impact of adjustments	Value of the adjustment £000s
Exceptional items	Shows separately in the Comprehensive Statement of Income and Expenditure the gain of £34 million and expenditure of £1million	
Property capitalised under IAS 16 IFRIC 12	Increases the value of Property Plant and Equipment and increases the balance on the Capital Adjustment Account	9,100
Notes to financial statements	Additional disclosures on notes 31,34,36,37,38,40,41	
Capital grants received	A change in the analysis between categories within note 16	81
Creditors	A change in the analysis between categories within note 38	4,340
Creditors	Reduces the value of Short-Term Creditors on the balance sheet and increases the value of Provisions	1,000
Officers remuneration	Increases by 8 the number of officers within the banding analysis at note 23	
Notes to financial statements	Eliminated inconsistencies between the primary statements and the supporting notes	

Adjusted misstatement	Nature and impact of adjustments	Value of the adjustment £000s
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where a figure appears in more than one supporting note.

There were no matters identified during my audit for which Management have refused to make adjustments.

Appendix 2- Letter of representation

To:

Michael Thomas
Audit Commission
3rd Floor Millennium House
60 Victoria Street
Liverpool
L1 6LD

St Helens 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 St Helens 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 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

There are no uncorrected misstatements within the financial statements.

Supporting records

All relevant information and access to persons within the Council 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.

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.

Related party transactions

I confirm that I have disclosed the identity of St Helens Council 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 St Helens Council

I confirm that the this letter has been discussed and agreed by the Audit and Governance Committee on 26 September 2011.

Signed.....

Ian Roberts
Assistant Chief Executive (Finance)

Date.....

Signed.....

Councillor Rimmer
Leader St Helens Council

Date.....

Appendix 3- Draft Opinion

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ST HELENS COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of St Helens Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow 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 St Helens 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 Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Authority'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's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; 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 St Helens Council'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 the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

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

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, St Helens 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 accounts of St Helens Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Michael Thomas
Officer of the Audit Commission

Audit Commission
3rd Floor Millennium House,
60 Victoria Street,
Liverpool, L1 6LD

Appendix 4 – 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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0844 798 7070

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

