

Report to those charged with governance - the audit of the financial statements

Wirral MBC

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Reference:	Wirral SAS610 report
Date:	Nov 2004

Introduction

Statement of Auditing Standard (SAS) 610 requires auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance':

- expected modifications to the audit report
- unadjusted non-trifling misstatements
- material weaknesses in accounting and internal control systems
- qualitative aspects of accounting practice and financial reporting
- matters required by other auditing standards to be reported to those charged with governance
- other matters that we wish to draw to your attention.

We have agreed with the Council that the communications required by SAS 610 in advance of issuing our opinion would be with the Cabinet and the Licensing, Health & Safety and General Purposes committee.

This report sets out for Members' consideration the matters arising from the audit of the financial statements for 2003/2004 that require reporting under SAS 610.

Status of the Audit

Our work on the financial statements is now substantially complete. We anticipate issuing an unqualified opinion on 23 November 2004.

Matters to be reported to those charged with governance

We have the following matters to draw to Members' attention.

Expected modifications to the audit report

On the basis of our audit work we propose to issue an unqualified opinion on the Council's financial statements.

However, the opinion includes a 'fundamental uncertainty' in respect of the level of Housing and Council Tax Benefit Subsidy payable to the Council as the Department for Work and Pensions has yet to issue a final determination for the years 1999/2000, 2000/01, 2001/02 2002/03. Details of the circumstances relating to this fundamental uncertainty are described in note 16 to the Consolidated Balance sheet. My opinion is not qualified in this respect.

In addition we have reported on an 'Other Matter' relating to the statement of internal control (SIC) contained within the Council's financial statements. Whilst we are not required to issue an audit opinion on the SIC we have a duty to consider whether it accurately reflects the position of the audited body. In our opinion, the SIC does not appropriately reflect our understanding of the internal control issues in relation to the significant weaknesses in the software routines within the Housing Benefit system.

Officers have agreed to amend the SIC next year. This issue is explained in more detail below.

Unadjusted misstatements

Following errors found in a number of authorities, the Audit Commission has carried out a national exercise to review accounting adjustments made following the commutation of grants in 1992. We found a technical error in the original formula for commutation adjustments used at Wirral in 1992/93 which is likely to have affected all years since then. However, as original working papers are no longer available, there is uncertainty about the actual amounts involved. The maximum impact on the financial statements is that the capital financing reserve could be understated by a cumulative £3.8m. For the purposes of our auditor's report, we have not required amendment as the potential impact is marginally below our materiality level and we cannot be certain about the amounts involved. No action is needed to address the likely understatement of the capital financing reserve as this will be self correcting through the introduction of the new capital financing requirement in 2004/05.

Material weaknesses in accounting and internal control systems

We have identified no such matters in the course of our audit.

Qualitative aspects of accounting practices and financial reporting

The timetable for the production of the accounts has been significantly brought forward in 2003/04, with accounts presented to Members six weeks earlier than in 2002/03. This has had a knock-on affect on the quality of financial statements and supporting working papers.

The audit has identified several areas where there is a need to strengthen the procedures and supervisory arrangements in place for the closure of accounts. These include the need to ensure :

- all bank reconciliations are fully completed with adequate supporting documentation
- year-end Treasury Management cash flow monitoring procedures are strengthened
- debtors and creditors balances are appropriately classified, recorded and supported by a good audit trail
- year-end reserves and provisions balances are at an appropriate level and supported by appropriate evidence, e.g. IT and Housing Benefit reserves.
- all aspects of the accounts, including policies, supporting notes and subsidiary statements, are prepared to fully comply with Cipfa's professional guidance (SORP)

A commutation adjustment of £179,000 has reduced the amount of the minimum revenue provision charged to the HRA in 2003/04. Although the adjustment has been made each year since 1992/93, it does not comply with capital financing guidelines and allowable entries within the HRA as prescribed by statute. As the cumulative adjustment is material to the HRA, the accounts have been amended. The cumulative effect has been to increase the amount of expenditure charged to the HRA and decrease HRA balances by £1.1m, with a corresponding increase in General Fund balances.

A significant weakness exists in relation to the software routines within the Housing Benefits system that are responsible for producing the information for the Housing and Council Tax Benefit Subsidy claim. Problems with the process whereby the subsidy package analyses expenditure for completion of the claim result in a fundamental uncertainty over the amounts of subsidy claimed. We understand that there are proposals to introduce a replacement Housing Benefit system in 2006/07, in line with the timescale for the new General Ledger system.

Matters required by other auditing standards to be reported to those charged with governance

We have identified no such matters in the course of our audit.

Other matters that we wish to draw to your attention

The significant amendments arising from the audit are detailed in Appendix 2.

We recognise the Financial Services Division has been restructured and, although the Division was understaffed at the year-end, appointments have been made since.

A draft final accounts memo has been produced highlighting the issues arising at the audit. Officers are keen to address these issues for the 2004/05 audit and the memo will help provide a clear agenda for the new chief financial accountant.

Next steps

We are drawing these matters to Members' attention so that you can consider them before the financial statements are approved and certified.

Status of our reports to the Authority

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

Draft Auditor's report to Wirral MBC

I have audited the statement of accounts on pages A to F which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages X to Y and the Pension Fund accounts, on pages H to L, which have been prepared in accordance with the accounting policies applicable to pension funds set out on pages V to W.

This report is made solely to Wirral Metropolitan Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Chief Financial Officer and Auditor

As described on page x the Chief Financial Officer is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2003. My responsibilities, as independent auditor/auditors, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the statement of accounts present fairly:

- the financial position of the Council and its income and expenditure for the year,
- the financial transactions of its Pension Fund during the year and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

I review whether the statement on internal control on page x reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the statement of accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

Fundamental uncertainty

In forming my opinion, I have considered the adequacy of disclosures made in the statement of accounts concerning the potential reclaim of Housing and Council Tax Benefit subsidy by the Department for Work and Pensions in respect of outstanding claims for the years 1999/00 to 2002/03. Details of the circumstances relating to this fundamental uncertainty are described in note 16 to the Consolidated Balance sheet. My opinion is not qualified in this respect.

Opinion

In my opinion the statement of accounts presents fairly the financial position of Wirral Metropolitan Borough Council as at 31 March 2004 and its income and expenditure for the year then ended.

Opinion on the pension fund accounts

In my opinion the financial statements present fairly the financial transactions of Merseyside Pension Fund during the year ended 31 March 2004, and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

Other Matter

I have reviewed the description of the processes undertaken for reviewing the effectiveness of the system of internal control as set out on pages 8 & 9. In my opinion, the SIC does not appropriately reflect our understanding of the internal control issues in relation to the significant weaknesses in the software routines within the Housing Benefit system.

Certificate

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

Signature:

Date:

November 2004

Name: Judith Tench

Address:

Audit Commission
The Heath Business and Technical Park
Runcorn
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Appendix 2 -Amendments Arising from the Audit

Final Accounts Item	Officers' response
<p>Fixed Asset revaluation</p> <p>The value of Council Dwellings in the accounts has been increased by £306m following a further review by Council valuers.</p>	Fixed Assets and Fixed Asset Restatement Reserve to be amended.
<p>Cash, Debtors and Creditors</p> <p>Cash, debtor and creditor balances have been amended by approximately £2.088m. This is a balance sheet adjustment to reflect cash received by the year-end as per the bank but not included within the cash balance of the Council. There is no impact on the revenue account.</p>	Cash, debtors and creditors balances to be amended.
<p>Housing Benefit Debtor</p> <p>Housing benefit overpayments totalling £0.740m which are being recovered from future benefit payments were not included in the year end debtors figure.</p>	Debtors and deferred income to be amended.
<p>Creditors</p> <p>The balance was amended to include the housing benefit grant claim creditor (£0.593m) and to correct an error in the calculation of internal creditors (£0.392m). The disclosure note was also amended to correct various significant classification errors.</p>	Creditors balance and disclosure note to be amended.
<p>Provisions</p> <p>Material amendment in relation to the calculation of the insurance fund provision. The balance has been increased by £1.1m with a compensating reduction in reserves. There is no impact on the revenue account.</p>	Provisions and reserves balances to be amended.
<p>Debtors</p> <p>The disclosure note was amended to reflect errors in the classification of debtor balances.</p>	Disclosure note to be amended.
<p>Consolidated Revenue Account & Pensions disclosures</p> <p>The CRA has been amended to reflect the adjustments required to comply with FRS17. These included an adjustment of £2.697m in respect of teachers' pension costs and a decrease in the pensions liability and reserve from £159m to £143m. The CRA disclosure note in respect of teachers pensions has also been amended to reflect contributions paid of £13m (previously £10.4m) and the increased contribution rate of £13.5%.</p>	Accounts to be amended
<p>Housing Revenue Account</p> <p>Adjustments to correct the application of a commutation adjustment of £0.179m in 2003/04 and a cumulative adjustment since 1992/93 of £1.1m, resulting in a corresponding decrease / increase in HRA/ General Fund balances.</p>	HRA and general fund to be amended subject to agreement by the Council.
<p>Capital Receipts</p> <p>A capital receipt of £0.532m, in respect of property sales subject to grant clawback, is shown incorrectly in the accounts as a capital grant unapplied.</p>	Capital receipts and capital grants applied to be amended.

<p>Various disclosures</p> <p>Various adjustments to the presentation of accounting statements and disclosure notes to more fully reflect SORP requirement.</p>	<p>Accounts to be amended.</p>
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